S.Hrg. 98-1293

AVAILABILITY AND RELIABILITY OF AGENCY INFORMATION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
ADMINISTRATIVE PRACTICE AND PROCEDURE

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

AVAILABILITY AND RELIABILITY OF AGENCY INFORMATION

JUNE 19, 25, AND 27, 1984

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AVAILABILITY AND RELIABILITY OF AGENCY INFORMATION

TUESDAY, JUNE 19, 1984

U.S. Senate,
Subcommittee on Administrative
Practice and Procedure,
Committee on the Judiciary,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room SD-226, Dirksen Senate Office Building, Hon. Charles E. Grassley, (chairman of the subcommittee) presiding.

Staff present: Lynda Nersesian, chief counsel and staff director; Lisa Hovelson, legislative assistant.

OPENING STATEMENT OF SENATOR CHARLES E. GRASSLEY

Senator **Grassley**. I would like to call this hearing of the Subcommittee on Administrative Practice and Procedure to order, and to say that I have had an opportunity to visit with some of the members of the subcommittee about the statement I am going to read. Last night, I had an opportunity to visit with Senator Heflin personally and some other members personally, and at the staff level with other members of the committee. If it had not been for the late session, I am sure Senator Heflin would have been here. He may still come, But I do not want to keep the public, the press, and the people who are going to testify.

I sincerely regret to have to announce the postponement of today's scheduled hearing. I am not happy in making this announcement. I think the purpose of the hearing was well stated in the letters. The information that should have come to us is simply a matter of information being out on the table to be considered by the Congress of the United States in our policymaking role, the same way as any other policymakers connected with the Federal decisionmaking process need information for making those decisions.

The reason for the postponement, quite frankly, is a confrontation between the Congress of the United States and the U.S. Air Force. I am sorry to say it, but the Air Force has engaged the Congress in a bureaucratic game of "chicken," and this subcommittee will not tolerate it, and we will not back down.

Pursuant to the problem, I have called a meeting of the subcommittee for later today. The subcommittee will then exercise its will to issue a subpoena for the appearance and testimony of Mr. A.

Ernest Fitzgerald, Management Systems Deputy, Office of the Assistant Secretary of the Air Force for Financial Management.

I regret the inconvenience to the scheduled witnesses, to the members of the press, and the public, members of the subcommittee, and the staff. The chairman and the staff of this subcommittee were here past midnight to resolve this matter.

In fairness to my colleagues, because of time considerations and for the purpose of sorting out yesterday's rash of events, the meeting to issue a subpoena, originally planned for 9 a.m., will be rescheduled. The hearing itself will also be rescheduled in the next available timeslot in the subcommittee's calendar.

While I am here, I would like for the record to state the issue of contention for the benefit of the public. Mr. Fitzgerald has information which the Air Force does not want to have surface unless it is surfaced by someone the Air Force disowns. In such a case, the Air Force can and will pretend the information, however factual, is only an opinion. The information that Mr. Fitzgerald speaks of is explosive; I know. I have collected a substantial amount of such information through my own channels. What it reveals is astounding.

It reveals that the vast majority of money we put into major weapon systems is pure waste and inefficiency. Examples of as little as $1 out of every $17 goes for the national defense. The rest goes into the wastebasket, and this translates into only 6-percent efficiency for some of our national defense dollars.

Based on the evidence, those actions of the Air Force are understandable, but they are not excusable. The Air Force refused to give a security clearance for Mr. Fitzgerald's testimony. It is my understanding that every point made in his testimony was backed by documentation. Furthermore, his testimony dealt strictly with the acquisition and cost information, rather than anything remotely related to the security of the Nation, and I, for one, can understand the necessity of information like that not being public.

When the Air Force refused to clear Mr. Fitzgerald's testimony, the subcommittee requested of the Air Force a detailed explanation and rationale for its differences with Mr. Fitzgerald's testimony, whether based on fact, policy, or any other criterion that they might care to insert.

The Air Force's reply was merely a restatement of its earlier refusal to clear Mr. Fitzgerald's testimony.

The subcommittee then acted to consider the possibility of a subpoena.

For the benefit of the public record, I would like to submit the chronology of written correspondence between this subcommittee and the Air Force. I think that this correspondence will clearly portray the intent of the Air Force engaging in bureaucratic shenanigans.

[The following was received for the record.]

United States Senate

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ALICE R. WILDER, GENERAL COUNSEL

May 25, 1984

Major General James C. McCarthy, USAF
Director
Air Force Legislative Liaison
Room 4D927
The Pentagon
Washington, D.C. 203

Dear General McCarthy:

Earlier this Congress, the Senate Judiciary Subcommittee on Administrative Practice and Procedure, which I chair, conducted a hearing on "whistleblowers" and their role in administrative proceedings. The subcommittee is continuing its focus on the administrative process through a series of additional hearings this summer.

On June 19, 1984, the subcommittee has scheduled a hearing on the issue of "reliability and availability of agency information." We would very much appreciate the appearance and testimony of Air Force Deputy Assistant Secretary for Management Systems, Mr. A. Ernest Fitzgerald.

The hearing will be at 10:00 a.m. in Room SD-226 of the Dirksen Senate Office Building. We request that 75 copies of Mr. Fitzgerald's entire testimony be forwarded to the committee no later than Thursday, June 14.

To advise me of your decision or if you have any questions regarding this matter, please contact my staff member, Veronica Gonzales, at 224-7703.

Sincerely,

Chuck Grassley

Charles E. Grassley
Chairman
Subcommittee on Administrative
Practice and Procedure

CEG:lhg

DEPARTMENT OF DEFENSE UNITED STATES OF AMERICA

DEPARTMENT OF THE AIR FORCE
WASHINGTON, D.C. 20330

OFFICE OF THE SECRETARY

JUN 11 1984

Honorable Charles E. Grassley
Chairman, Subcommittee on Administrative
  Practice and Procedure
Committee on the Judiciary
United States Senate
Washington, D. C. 20510

Dear Senator Grassley:

This responds to your letter of May 25, 1984, in which you request Mr. A. Ernest Fitzgerald appear as a witness before your Subcommittee on June 19, 1984.

On behalf of Secretary Orr, I am pleased to make Mr. Fitzgerald available to testify before your Subcommittee. He has been informed of the time, place, and subject of the hearing and is presently preparing remarks to present at the hearing.

As you are aware, our procedures require that the testimony of any Air Force personnel appearing at a Congressional hearing in an official capacity be reviewed for security and policy considerations. Mr. Fitzgerald is aware of this requirement and will submit his remarks for the required review as soon as possible. When the review is complete, the statement of Mr. Fitzgerald will be provided to the Subcomittee Staff as far in advance as is feasible. Should we, on either a security or policy basis, be unable to clear Mr. Fitzgerald's testimony for presentation as an official departmental witness, please be assured that he will be able to testify as he sees fit so long as both he and the Subcommittee understand that he is testifying as a Department of the Air Force employee whose views may not necessarily reflect those of the Air Force.

Lt Colonel William C. Thompson, Jr., telephone 697-1623, is the project officer from my office for this hearing. He has already been in contact with your staff and will be available to provide you and your staff with whatever assistance is needed.

Sincerely,

James P. McCarthy

JAMES P. McCARTHY
Major General, USAF
Director, Legislative
  Liaison

DEPARTMENT OF THE AIR FORCE
WASHINGTON, D.C. 20330

OFFICE OF THE SECRETARY

1984 JUN 18 PM 12:52

18 JUN 1984

Honorable Charles E. Grassley
Chairman, Subcommittee on Administrative
Practice and Procedure
Committee on the Judiciary
United States Senate
Washington, D. C. 20510

Dear Senator Grassley:

On June 11, 1984, Major General James P. McCarthy, then Director of Legislative Liaison, wrote to inform you that Mr. A. Ernest Fitzgerald would be available to testify before your Subcommittee on June 19, 1984, as you requested.

The Air Force has conducted an official review of Mr. Fitzgerald's statement and has determined that it cannot be cleared as an expression of official Air Force policy. Mr. Fitzgerald is, however, available to appear before your Subcommittee as an Air Force employee in a duty status whose views are his own and do not reflect the official policy or position of the United States Air Force or the Department of Defense.

Mr. Fitzgerald has been informed today that his statement has not been cleared for presentation as official policy. He has also been encouraged to honor your request for his appearance and to present his views on the matters in which you have indicated the Subcommittee's interest.

Sincerely,

CLIFFORD H. REES, JR.
Major General, USAF
Director, Legislative Liaison

United States Senate
COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C. 20510

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ALICE R. MILDER, GENERAL COUNSEL

June 18, 1984

Major General James C. McCarthy, USAF
Director
Air Force Legislative Liaison
Room 4D927
The Pentagon
Washington, D.C. 20301

Dear General McCarthy:

As of 12:00 noon on June 18, 1984, less than 24 hours prior to the scheduled hearing on "availability and reliability of agency information" before this subcommittee, we have received confirmation from the Air Force that the testimony of Mr. A. Ernest Fitzgerald, Management Systems Deputy, Office of the Assistant Secretary of the Air Force for Financial Management, has not been given clearance.

The subcommittee interprets this action as a refusal to comply with its request dated May 25, 1984 for the testimony of Mr. Fitzgerald.

The subcommittee now requests a fully detailed explanation and rationale, whether due to policy differences, factual differences, or otherwise, of the Air Force Department's refusal to clear the testimony of Mr. Fitzgerald for the June 19 hearing. This explanation and rationale should be delivered today, June 18, by 6 p.m., at the close of business.

Sincerely,

Chuck Grassley

Charles E. Grassley
Chairman, Administrative Practice and
Procedure Subcommittee

CEG/lhr

DEPARTMENT OF THE AIR FORCE
WASHINGTON, D.C. 20330

OFFICE OF THE SECRETARY

18 JUN 1984

Honorable Charles E. Grassley
Chairman, Subcommittee on Administrative
  Practice and Procedure
Committee on the Judiciary
United States Senate
Washington, D. C. 20510

Dear Senator Grassley:

This responds to your letter of June 18, 1984, in which you request an explanation for the Air Force's "refusal to comply with (the Subcommittee's) request dated May 25, 1984, for the testimony of Mr. A. Ernest Fitzgerald."

The Air Force has encouraged Mr. Fitzgerald to testify before the Congress. In both written and personal communications, Secretary Orr has previously made it clear that he encourages Mr. Fitzgerald to testify at any time before any Congressional committee which requests his appearance. As General McCarthy noted in this letter to you of June 14, 1984, and as I noted to you in the letter I sent earlier today, Mr. Fitzgerald is available to testify before the Subcommittee as an Air Force employee testifying in a duty status.

Considerable effort has been made to obtain appropriate Air Force clearance for Mr. Fitzgerald's statement; however, during the review process, numerous objections were raised to the presentation of this statement as a reflection of official Air Force policy. Both as originally written and as revised by Mr. Fitzgerald, his statement reflects a personal account and not an organizational account, based on his opinions and perceptions, rather than reflecting an Air Force position.

Mr. Fitzgerald has been advised that his statement was not cleared and could not, therefore, be presented as official Air Force policy. He was also advised that he could appear before the Subcommittee to testify as an Air Force employee in a duty status, and has been encouraged to do so.

If I may be of further assistance, please advise.

Sincerely,

CLIFFORD H. REES, JR
Major General, USAF
Director, Legislative
  Liaison

UNITED STATES SENATE
WASHINGTON, D.C. 20510

CHARLES E. GRASSLEY
IOWA

June 18

Dear Verne

Just a personal note of suggestion regarding tomorrow's hearing involving Ernest Fitzgerald:

It is my understanding that Ernie's ~~testimony~~ has not been cleared. I urge you to do whatever is necessary to clear it.

The subcommittee is not asking for an official Air Force spokesperson. Nor are we requesting the personal opinions of an Air Force employee. The subcommittee requests Fitzgerald, Mgmt Systems Deputy, Off of Ass't Sec'y of Air Force for Financial Mgmt to testify in his official capacity as stated in our letter of May 25.

I would hate to see this matter develop the way the Spinney hearing did — especially in an election year. And I'd hate to have our long standing relationships & co-operation jeopardized by the use of extraordinary measures.

Due to the constraints of time I respectfully request a reply from you by 6:00 pm this evening.

Sincerely

Chuck

June 18, 1984

Dear Senator Grassley

I am in receipt of your letter to Secretary Orr, and have discussed it with the Under Secretary in Mr Orr's absence.

Mr Fitzgerald *is* available to testify before your Subcommittee in his *official* capacity as requested in your letter of May 25. His prepared statement, however, has not been cleared as representative of an Air Force position. He may, if he so chooses, give his *statement* to the committee as the personal view of the Management Systems Deputy.

We, too, are distressed that Mr. Fitzgerald has not agreed to a statement that could reflect the Air Force's views. We must respect, however, his right to hold views and opinions contrary to the Air Force and provide him every opportunity to make those views known to interested parties.

I would hope that Mr. Fitzgerald does present himself to your Subcommittee as you requested on 19 June, 1984.

If I may be of any further assistance, please do not hesitate to call upon me.

Sincerely,

Ted Rees MG USAF

Senator **Grassley**. Now, some people legitimately have asked me and other members of this committee, and it can be discussed maybe anywhere in town, what difference it would make if Mr. Fitzgerald testified as a private individual, rather than in his official capacity, with approved testimony. There is a big difference. To understand the difference is to understand the bureaucratic game and how it is played. For us to accept Fitzgerald's testimony on the Air Force's present terms of disclaiming his present testimony as his own views and opinions would be for us on the subcommittee—and indirectly, the Congress as a whole—to accept the fact that the Air Force does not acknowledge its own outrageous cost problems. Quite frankly, that is unacceptable to this subcommittee.

Now, this is a common tactic of the bureaucracy—to many bureaucracies it is a common tactic of. I am aware of this game and how it is played, and I do not think we should tolerate it any longer.

As far as I am concerned, the only way the Air Force can fully cooperate is by clearing Mr. Fitzgerald's testimony. What he says in that testimony, though unpleasant, is true. The Air Force has a responsibility to confess this problem to the public. It is an Air Force problem, and it was discovered by the Air Force's own Financial Management Systems Deputy, and of course, it will not be corrected unless the Air Force first acknowledges that the problem exists.

To this subcommittee, acknowledging that the problem exists means, clearly, producing Mr. Fitzgerald's testimony. Should the subcommittee decide to use the subpoena—and I am confident that it will—I will personally deliver it to the Pentagon.

Since no other member of the subcommittee has shown for a statement, although I would invite any written addition to the record that any member would care to make, I declare this meeting adjourned.

[Whereupon, at 10:18 a.m., the subcommittee was adjourned, subject to the call of the Chair.]

AVAILABILITY AND RELIABILITY OF AGENCY INFORMATION

MONDAY, JUNE 25, 1984

U.S. Senate,
Subcommittee on Administrative
Practice and Procedure,
Committee on the Judiciary,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room SD-226, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the subcommittee) presiding.

Present: Senators Heflin, Baucus, and Metzenbaum.

Staff present for Senator Grassley: Kris Kolesnik, legislative assistant; Lisa Hovelson, legislative assistant; Veronica Gonzales, legislative aide.

Staff present for Senator Heflin: Arthur Briskman, chief counsel and staff director; Peggy Mainor, counsel.

OPENING STATEMENT OF SENATOR CHARLES E. GRASSLEY

Senator Grassley. I would like to call this hearing to order.

This is the Subcommittee on Administrative Practice and Procedure, and today we are focusing on the accessibility and reliability of agency information to Congress.

Congress requires, of course, the widest possible range of information for evaluation and decisionmaking. Information is power, and with power goes responsibility. Without full access to reliable information, Congress cannot perform its responsibilities to the people of this country.

These hearings have been called to review the practice and procedure of information flow to the Congress. We are concerned with barriers to the access of that information, either legal or constitutional, the nature of information that is accessible or unaccessible, and the laws governing this activity. We are interested in who has custody of ensuring the system is running smoothly, and, of course, we are interested in who has custody of the custodians.

This hearing will be concerned with the following questions:

(a) What specific laws and institutions serve to protect the system or process of information flow?

(b) Is the system running smoothly?

(c) If not, why not?

(d) What information is not getting through the channels? and,

(e) What are the consequences of not getting this information?

The specific institutions we are concerned with today are the Congress, the Justice Department, and the Defense Department Inspector General.

There are also several specific statutes of concern to us. United States Code, title 10, sec. 2276 provides that agencies may conduct full audits or inspections of contractors, that Congress has the right of full access to that information, and that penalties will be imposed against anyone preventing a full and free audit. I think this statute is clear and understandable.

The second United States Code, title 18, sec. 1001 more commonly referred to as the fraud statute. This statute states the following:

> Whoever knowingly and willfully falsifies, conceals or covers up by any trick, scheme or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than $10,000 or imprisoned not more than 5 years or both.

A third statute which I will not read aloud, found in United States Code, title 18, sec. 2071 deals with the concealment and falsification of public records and documents. And finally, United States Code, title 18, sec. 1505 governs attempts to influence, obstruct, or impede a witness before a committee, as well as attempts to retaliate against a witness.

It should be very clear to us that these statutes serve to protect the flow of information to the Congress, so we can be responsible decisionmakers. The existence of these statutory protections indicate that lawmakers have acknowledged the fact that an unrestricted flow is absolutely essential for adequate evaluation and responsible decisionmaking.

At this point I would like to allow other members to proceed with any statements they may have. Senator Heflin, who is ranking minority member of this committee and has participated in the full hearings, has a statement he wants to make.

Senator **Heflin**. Mr. Chairman, today the subcommittee focuses on whether or not Congress is getting the full picture on the practices of the Department of Defense's expenditure of taxpayer dollars. To enable Congress to fulfill its constitutional authority—to oversee Government agencies and make wise appropriations decisions—we must have access to accurate and reliable information about agency activities.

The need for a strong national defense and the dollars to make it happen is not the issue. Common sense tells us that paying 10 or 20 times what something is worth is no way to run a business, and certainly no way to protect and assure our national security.

I have had business leaders tell me if the Department of Defense was run on a businesslike basis, there could be savings of 15 to 20 times its overall budget.

Today we are exploring ways to put dollars we have earmarked for national defense to the wisest possible use. America's security needs are great—we must cope with the unrelenting growth of Soviet military power. Enormous military expenditures do not, however, guarantee our national security. Along with these expenditures goes an obligation of fiscal responsibility. We cannot throw money at the problem and expect it to go away. Better management will enhance our defense capabilities. As we know from experience, those closest to a problem often develop tunnel vision. That is the reason we need inspectors within the Defense Department and congressional oversight from the outside. We should be no more tolerant of waste and mismanagement in the Defense Department than anywhere else. This is particularly true at this time when our need to strengthen our military is so great, and huge deficits are projected as far as the eye can see. Whatever the costs, it is the taxpayer who is paying.

There are obviously special problems in evaluating military equipment. Secrecy is essential. But the American people cannot get the most for their money, and Congress cannot effectively evaluate the projects it is our duty to oversee, if the Department of Defense's own auditors are not allowed to see the books.

The obstacles Congress faces in obtaining the necessary information was brought sharply into focus at hearings in November chaired by the distinguished Senator from Iowa, Senator Grassley, on the problems whistleblowers face. Whistleblowers are conscientious employees who are trying to reveal wrongdoing they see on the job. The subcommittee learned at those hearings that whistleblowers are often punished, or even fired, or transferred for their honesty.

Today we will hear from officials entrusted with the responsibility of enforcing laws already on the books requiring honesty in Government dealings.

Horror stories of duplication and cost overruns, of $7 parts costing $700, are so numerous that I have advocated the creation of a Competition Advocate General in each branch and agency of the Department of Defense. I understand that our scheduled witnesses will give us specific—even personal—examples of the Defense Department withholding information or attempting to cover up abuse. I welcome their important testimony. I am looking forward to a progress report from the newly created Inspector General's Office of the Department of Defense, an office I strongly support, an office I hope is being operated tenaciously.

I commend Chairman Grassley for his courageous, tenacious, and decisive leadership of the subcommittee. Under his outstanding chairmanship, this subcommittee is breaking new ground in getting to the root of the problems Congress has experienced in obtaining the information we need for thorough and effective agency oversight.

Senator **Grassley**. Thank you, Senator Heflin.

I want to tell you that I appreciated your cooperation last Tuesday, at a time when you met with me and Senator Baucus, and along with the cooperation of Senator Specter, through his proxy, by a vote of four to nothing, we were able to issue a subpoena for some of the testimony that we will hear this morning.

What we were planning on doing today, we had planned on doing last week, and I canceled the hearing because of the inability of certain people to testify pursuant to the letter of invitation that we had originally submitted to them.

You have been very cooperative in this whole effort. I want to say that, without your help, this meeting, with the official expert testimony that we will hopefully get today, would not have been possible. I have also stated that Senator Baucus has been very helpful, and he has testimony that I am going to insert at this point in the record, without objection.

[The following was received for the record:]

PREPARED STATEMENT OF SENATOR MAX BAUCUS

Mr. Chairman, for those of us who believe we must have a strong defense, the information that this subcommittee has gathered to date and the testimony it will hear today is shocking. For the past three years, we in Congress have voted for the largest peacetime increases in the Defense Department budget in history. Many of us have done so believing that additional resources provided to our armed services would help assure our future peace and safety.

We have all been shocked at the recent revelations of the unbelieveably high prices paid to defense contractors for spare parts and simple hardware. Many of us are working to develop ways to prevent such waste from happening again.

Yet today we are to hear testimony that indicates the Air Force's own watchdogs are hindered at every step in their efforts to eliminate waste and to assure that tax dollars are spent effectively.

During my time in Congress I have spent a considerable amount of time trying to eliminate government waste and mismanagement. The first lesson I learned was that you first need access to information before you can begin to correct a situation. Obviously, those individuals both in and out of government who would cheat the taxpayer and endanger the lives of their fellow citizens have also learned this lesson. It appears that obfuscation and delay added to layer after layer of the military bureacracy has been used to hide the fact that most of our tax dollars spent on certain weapon systems are wasted.

Who is hurt by these deliberate attempts to prevent disclosure of mismanagement at the Defense Department? We all are—the taxpayer who faithfully pays his or her taxes—the honest businessperson who isn't given a chance to provide needed products at reasonable prices—and the military soldier in the field who is denied the necessary resources to hone his or her skills because defense dollars are gobbled up by inflated management and overhead costs.

Mr. Chairman, I look forward to reviewing carefully the information gathered at today's hearing. I fully support these efforts and encourage you to continue to gather information that will help us put a stop to this horrible waste of money.

Senator GRASSLEY. No objection heard, so Senator Baucus' testimony is included.

A duty of this subcommittee is to oversee the administrative practices and procedures of agencies, including how those agencies comply with the laws we have set out for them. It is actually a simple matter of reviewing the procedures, on the one hand, and comparing it to what occurs in practice.

We begin this investigation with a specific instance involving the U.S. Air Force. The circumstances surrounding this case will later be expanded to a larger context—that of the general process. For an explanation of how this specific instance fits into the general process, we have invited to testify both the Office of the Defense Department Inspector General, and an appropriate representative of the Justice Department.

Our first witness is Mr. A. Ernest Fitzgerald, the Management Systems Deputy, in the Office of the Air Force Assistant Secretary for Financial Management. Mr. Fitzgerald is widely recognized among his peers as one of the country's foremost industrial engineers.

Mr. Fitzgerald's case is a truly unique one in that he alone in the Government bureaucracy has, through court order, an unambiguous description of the functions of his job, including the following:

"The incumbent of this position (has) responsibility and authority necessary for the development of improved management controls and broader use of statistical analysis with the Air Force."

Mr. Fitzgerald is "responsible at the highest Air Force level for policies and procedures." Mr. Fitzgerald is to "provide guidance and direction to the Air Staff and the Commands." And Mr. Fitzgerald is "responsible for Air Force integrated performance measurement including cost control and reduction activities."

I am reading from this court order to remove any doubt or confusion about the authority granted Mr. Fitzgerald by the court, an order signed and agreed to by the Department of Justice on behalf of the Air Force. Of course, Mr. Fitzgerald has been known as a whistleblower. I think it is appropriate to say Mr. Fitzgerald is no longer a whistleblower. He is an official witness. He is not here to give us his personal views, nor the official views of the Air Force. He will give us his official findings and recommendations, in his official capacity as a Financial Management Systems Deputy.

With this clarification in mind, and one additional clarification, that the testimony that has been made public this morning is the testimony that was subpoenaed by this subcommittee last week.

So with these clarifications in mind, I would like to proceed with the testimony of Mr. Fitzgerald.

Mr. Fitzgerald, thank you for coming, and we look forward to your testimony.

I have informed Senator Heflin that I thought maybe at times it would be appropriate for us to question you during the process of your testimony. I hope that will not inconvenience you, and that you try to present a clear case of what the situation is.

STATEMENT OF A. ERNEST FITZGERALD, MANAGEMENT SYSTEMS DEPUTY, OFFICE OF THE ASSISTANT SECRETARY OF THE AIR FORCE, FINANCIAL MANAGEMENT, DEPARTMENT OF THE AIR FORCE

Mr. **Fitzgerald**. That would be fine.

I have submitted a very lengthy statement. My associates and I prepared this because we knew that the statement would be controversial, and we wanted to make sure that our fellow employees at the Department of the Air Force, Department of Defense, had an adequate opportunity to review the statement. We had asked at the outset that it be reviewed on two levels, the level of fact, the fact of policy violation, any possible policy violation. I do not believe that we have any substantive differences of fact. If there are any, we have offered to correct them, and I have included as an attachment to my testimony all those written responses on fact, and other matters that we reviewed prior to going to press last Friday, so as to give so-called balance to the testimony.

Because of the length of the statement, with the subcommittee's permission, I would like to, in the best Pentagonian traditions, use Vu-Graphs to summarize this lengthy testimony.

My associates and I began compiling a number of case studies of the difficulties and successes we have in hopes that those that follow us, and given our advancing ages, and that is any day, will not have to repeat our mistakes.

I can summarize the lengthy statement, with the subcommittee's permission, with a Vu-Graph.

Senator GRASSLEY. Yes; we would like to have you summarize it, and I see we are set up, and if it is necessary for you to come up here, closer to the equipment, so do it.

Mr. FITZGERALD. I would like to share with you a number of the experiences of the last few years, to illustrate the cases.

When I got back into the procurement business after being away 14 years, following my committing truth on the C-5 transport plane, I was given an assignment to look at—at the state of our performance measurement systems in the Air Force.

Several of my associates and I met with General Marsh, the Commander of the Air Force Systems Command, and at his request, we took a look at an F-16 fighter plane and the infrared Maverick missile.

The cooperation, to begin with, was excellent. We made a review of Air Force plant 44 in Tucson, AZ, where the contractor, Hughes, manufactures and assembles the Maverick missile, along with other missiles.

Now, our report back to our boss, the Assistant Secretary, was rather startling. The most startling of the findings were summarized in attachment 2 of my testimony. We reported back that we had learned that, in the first place, Hughes had, on paper, and apparently a very good system for telling us where we stood at any time. Unfortunately, this information had not reached the proper quarters in the Pentagon. The system itself had been sending out signals, distress signals, if you will, for a year and a half, but the way the information flow worked, it bypassed the Secretary of the Air Force's Office, and no one else seemed to be paying attention to it.

Among other things, this information showed that Hughes, according to Hughes' own measurements, based on measurements made by Hughes' own industrial engineers on what the work should take on the Maverick missile, they were spending 17.2 times as much as they should. This was after the production or work which was equivalent to completion of 93 missiles, following a prior model in which tens of thousands had been produced.

Senator GRASSLEY. Not 17 times?

Mr. FITZGERALD. 17.2 times.

Senator GRASSLEY. The period of time it was supposed to take to complete the task took 17 times——

Mr. FITZGERALD. Where they were using 17 times as many people as their own engineers said they should use.

Senator GRASSLEY. If it would take me an hour to mow my lawn——

Mr. FITZGERALD. If you had these folks, it would take 17 hours.

Senator GRASSLEY. I think I can understand why the Air Force did not want the information out there.

Mr. FITZGERALD. That is the good news, Senator. The bad news was apparently the overhead and support costs that accompanied this factory labor was even greater. The factory costs, as bad as they were, were probably the best part of the operation. It represented approximately 5 percent of the in-house cost.

Senator GRASSLEY. The other 95 percent were worse than the 17 to 1 ratio?

Mr. **Fitzgerald.** The other 95 percent were largely unidentified. Even today, after extensive studies, we are not sure what that goes for, but it is an extraordinarily high percentage of overhead and direct support. One of the highest we have seen.

I will show you a couple of examples.

Now, my bosses were upset by this, and we do not want to appear to be nitpicking on this one contractor, so they said, go out and get a larger sample. But General Marsh said that he did not want us fooling around with his contractors. He would get the information himself, he said.

Well, an interesting thing happened.

Senator **Heflin.** Let me ask you this, Mr. Fitzgerald. You said this is 17.2 times more than their industrial engineers. Are there any other divisions that differed within Hughes, with the industrial engineers? Was there a dispute between their industrial engineers and some of the other divisions within the company, or was this a basis—if it is costing them, you wonder why—did they have any internal review of their industrial engineers' findings, recommendations, which would explain a little more the internal aspect of that, as to whether or not there is some other explanation?

Mr. **Fitzgerald.** The explanation, I think—to answer your question directly, there was internal review, but in our opinion, it was inadequate. We later had several reviews that we have done ourselves, and I will touch on that in a moment.

Basically, the way this business works, the aerospace industry, you take time and multiply by large factors, as opposed to private competitive industry, where you have very small, if any, positive factors put on top.

The total cost of work done in this particular plant was $3,405 for a standard hour of output. That is many times what it should take under any reasonable assumption to perform electronics assembly work, electronic and mechanical assembly work.

Just roughly, if a company working at that level of efficiency were to try to make a color television that would cost $400, they would have to charge over $100,000 for it.

As a later review, by another agency of our Air Force showed, this was—this had persisted for some time. This is chart that was prepared under an assignment from headquarters by your witness on Wednesday, Mr. Ompal Chauhan. Mr. Chauhan not only confirmed our level of the actual hours compared to what the hours should be to do that work, but he showed the trend was in the wrong direction, and that a big part of the problem was poor workmanship, bad design, scrappy work instances were many times what it should take to do the whole job.

If they were to make your television, it would not only cost a tremendous amount, but it would not work.

If anything happened, as we tried to put together an overall system, that would provide for an orderly flow of information to the headquarters and to the decisionmakers generally, a phenomenon that my former boss, Mr. Russell Hale, called the descending of the "blue curtain." The "blue curtain" was Mr. Hale's description of the phenomenon of the military part of the Air Force simply clamming up, stopping the flow of information.

We gag information subsequently only with great difficulty, and sometimes not at all. This was the—we were trying to set up a system to routinely have this information flow to our headquarters, and to any decisionmaker who might want to have it.

Senator **Grassley**. I cited in my opening statement some statutes that protect against the obstruction of information flowing.

You talk about "blue curtain." How serious is that problem, because I think that is the core of what this hearing is about?

Mr. **Fitzgerald**. The "blue curtain" is still drawn very, very tightly about these matters, Senator.

Senator **Grassley**. How extensive is the problem.

Mr. **Fitzgerald**. As far as our office is concerned, it is almost complete. We have to go through layer, after layer, after layer of requests to get information, and it comes back to us the same way, and oftentimes it is altered, as I described in my prepared statement, and sometimes we never get the stuff at all.

Senator **Grassley**. What about your court order, I mean the court order that gave you access to this information? Even considering that court order, there is still a "blue curtain?"

Mr. **Fitzgerald**. Yes, sir; even considering the "blue curtain."

Senator **Grassley**. Almost an "iron curtain?"

Mr. **Fitzgerald**. Well, it is certainly opaque.

Senator **Heflin**. The "iron curtain" can be the color of blue.

Senator **Grassley**. I think I have, on the floor of the Senate, referred to some of the same things that you have referred to, and I have some information that I have gotten independent of what you are referring to here today, that would back you up on this.

In fact, I think it would almost indicate that inefficiency is kind of an underground economy here in town, and how serious this problem really is.

I am not going to go into detail, but I would simply say that standards set up by the companies themselves who are defense contractors are being exceeded by many, many times, as indicated by this one example you give us here, so I simply say that this is a scandalous situation, unconscionable. Hopefully, hearings like this will help to get information out to the public to a greater extent, so that we can overcome this deficiency.

Mr. **Fitzgerald**. The information you received, I believe, Senator, from the Secretary of the Air Force, was the kind of information we have been trying to get routinely, and had it not been for your efforts, I do not think we would have seen much of it, and as it is, we are unable to set up a system so that it flows smoothly, and I might add, impersonally, through the system. I am still hoping we will be able to do that.

You see, when my associates and I have to go out to the field and wrestle the holders of the information for it, they, obviously, react personally against us. That should not be. The system should provide for orderly, routine, impersonal flow, in time to do something about it, and in this case, the top management of the Air Force directed that a so-called cost study should be done to try to squeeze the fat out of the program.

In the process, we learned that the times that Hughes' own industrial engineers had set to do the work was overly generous. I know that seems difficult to believe, looking at the disparities, but those were the findings of two separate reviews.

Senator **Heflin**. Let me ask you this. Was the Hughes' industrial engineers'—standards that they established—were they established in the beginning? Were they modified or changed as they went along.

I reckon what I am trying to point out, were these standards submitted to the agency, and were they, therefore, any continuing or periodical reviews or audits to see whether or not they were complying?

If you establish certain standards, and then normally, in the course of events, those standards cannot be met, you ask for overruns at a certain time, or for modifications.

Would you give us a little bit of the procedure of how this operates? Say an industrial engineer establishes a standard of what it takes, and is there a periodical review, or is there requirements in the contract if something proves to be inadequate, that there has to be a reporting made, and that that reporting at that time is reviewed, or does it all come at and when, after a look, some have already been well overspent, and then cost overruns are then—the approval of cost overruns are then sought at that time?

Mr. **Fitzgerald**. I will try to answer that if I can remember all of that.

Hughes has, as I have indicated, on paper, an excellent system, should take time standards. It is what we call a parts list. Where they get drawings and list the parts that have to be bought or made. Preliminary should-take times are set on there. They should be updated as the work proceeds. Development missiles, which is what we are talking about, typically contain more work than a production material, and that is shown.

In our opinion, not just mine, but all the professional reviewers of this process, their maintenance of those items were not adequate. They were not updating them often enough. The reason was simple. It does not matter. As long as you are multiplying by whole numbers, small differences do not matter, and that leads to inattention.

Our people have not typically monitored the statistics in the past. They have looked—they have looked primarily at the trend of actual cost, and that is often the basis for pricing follow-on work. If they get away with this once, the actual time becomes the standard for future performance. As outlandish as it may seem, that is the system.

We set about, the Air Force did, to try to do something about the so-called should-cost study, which talks about the elements, labor, material, overhead, subcontracts, and seeks to grind each one down and reassemble it into an overall lower price.

Unfortunately, the "blue curtain" was drawn so tightly about this program, that we were unable to get any information about the so-called should-cost study until the new contract had been negotiated, and I think everyone that has reviewed it thinks they did a poor job, and we lost perhaps hundreds of millions over the period of this program.

I should point out that we have indication recently that dramatic improvement has been made in the ratio of actual to should take, or standard hours. However, we are not certain how solid those reports are.

So I would just add another word of caution. Indications that the times are being increased here on the standards level, and decreased somewhat unnaturally, or at least in a manner inconsistent with previous accounting on actual levels. The should-cost studies done today are not the same as we used to do them 20 years ago. They are often procedural reviews, rather than quick incisive reviews to squeeze out facts.

Senator **GRASSLEY**. You have some question about whether or not the statistics that would show improvement are rigged or not?

Mr. **FITZGERALD**. Rigged or not—they have changed the rules, yes, sir. We have serious questions about that.

Senator **GRASSLEY**. Are you getting access to the information so you can analyze it?

Mr. **FITZGERALD**. No, sir.

Senator **GRASSLEY**. So the very information that would prove that progress is being made——

Mr. **FITZGERALD**. Is suspect.

Senator **GRASSLEY**. And being withheld, as well.

Mr. **FITZGERALD**. Yes.

Senator **GRASSLEY**. I want to finish the questions, but I want to know what this adds up to in dollars, when you are finished answering his questions.

Mr. **FITZGERALD**. Typically, what you suggested, Senator Heflin, does happen. As the overruns progress, we have a phenomenon called get well, in the Air Force, or contract-nourishment change orders, and we have examined this program and others to try to determine the real value of the change orders which resulted in relief from overceiling conditions.

Again, because of the "blue curtain," we have been unable to get the kinds of answers that we would expect to get.

So, yes, all of the things that you were concerned about do happen. We do not have—or have not, until recently—I think we are getting better at it, but adequate review of the should-take times. We do not have contracting that requires a balance of work force to measure workload. We do not look adequately at the overhead and support costs, and we do not follow up, and we do let them off the hook, but we are trying to get a handle on it.

Unfortunately, I am unable to give you as much as I would like, because of the "blue curtain," as to where we are.

The figures you have seen, Senator Grassley, that you have referred to earlier, that came to you through other channels, show that this is a general condition, not an isolated example.

Senator **GRASSLEY**. We are talking about the tip of an iceberg. This information that I am putting in here for the record, as well as what you did, if in fact it is the tip of an iceberg—how much money inefficiency are we talking about?

Mr. **FITZGERALD**. I am hesitant to give an overall figure, because I have not looked at everything, but based on my past experience, and I have been in and out of this business for 30 years, I have never seen a weapons program that could not be cut by at least 30 percent without harming quality or delivery.

Today they look worse, the programs. If I can jump ahead, I will give you a range, and I make no claims that this is a valid statistical sample.

Senator **Grassley**. Give me a rough example, how many tens of billions of dollars?

Mr. **Fitzgerald**. If the example holds up, we are talking $30 billion from major acquisitions. It is not easily obtained. I have a summary I used before. I mentioned we need—the large prices we made for should take hours worth of work, this is in-house labor and overhead. In this period it included general administrative expenses—in 1973, when I testified on a similar subject before the Joint Economics Committee, the range we found was from $19 for standard hour of output, and that was roughly twice what a commercial manufacturer could live with at that time, to $195.

The latter figure was so shocking that I made a fairly detailed study of what a $400 color TV would cost. It would cost about $8,000. It has profound implications, as I testified at that time, for our industrial economy. Those implications were that they were becoming noncompetitive as the bad work habits and management practices affected our whole industrial body, to the point that I do not believe that we have any mass production of TV receivers in this country any more.

Senator **Grassley**. You talk about inefficiency. Employment in the last year is up 4½ million. Most of that has come in what has been referred to as small business. Large corporations, I do not know—no, this was a Fortune 500—have reduced their employment by 10 percent. Has there been a comparable reduction in employment in that type of corporation that does business with the Defense Department, to sort out the featherbedding, and to eliminate the gross inefficiencies that other major corporations, the Fortune 500, have been forced to do because of the recession?

Mr. **Fitzgerald**. It is not discernible, Senator Grassley. As I prepared to testify on March 1, the testimony I never gave, we cannot find any indication that that has happened in the give backs and executive pay, and white-collar pay especially—Secretary Orr has leaned pretty hard on blue-collar pay, and we think we have some results indirectly, but I do not know that we have done anything on executive pay.

We have certainly seen nothing except for the ones I have alluded to, any dramatic improvement of factory efficiency. Overhead looks like it is getting worse all the time.

Dr. Amley, and Mr. Parfitt, and I——

Senator **Heflin**. Before you go on, let me go back on this Maverick infrared missile. Was this a competitive bidding contract, or sole-source contract, the way it originated?

Mr. **Fitzgerald**. As it originated, the original Maverick had two competitors in it, but that was back in the 1960's. I was on the Source Selection Review Board at that time. Only the front end of this missile is new. The guidance approach is new. It was competitive then, but ever since, they have sold sole source with Hughes until recently, when—all this was revealed when we began to set up a second source for it.

To jump ahead to where we are today, Dr. Amley, my associate, made a review of dollars per standard hour from whatever sources we could get. We could not get it routinely, in 1982, when the statistics were dated. We had a range of $95 to the one I just mentioned, $3,405. I suspect that some that Senator Grassley has recently received may exceed this, figures that have not been published yet. I do not know. I have not seen the overall figures, but based on the efficiency level, they may exceed that.

Based on our difficulties——

Senator **Grassley**. I want to verify that we have figures that exceed it by 18 times.

Mr. **Fitzgerald**. As a result of the difficulties in getting information, and the incredible degree of fact, with the approval of my boss, my associates and I went into the spare parts business. We have cost control, cost reduction. That was the problem, so we felt that on the big stuff, went into the spare parts business. We had noticed—spare parts cost reduction business, I should say.

We had noticed, when we were visiting Hughes, that their spare parts formula used the same markup, the same inefficiency factors, the same overhead that we found on the big stuff, on the major deliverable items like missiles and launchers. We began to look into engine spares.

My associate, Mr. Parfitt, Collin Parfitt, made a review at Pratt & Whitney in East Hartford of engine spare part prices, and this turned out to be one of the most important reviews we ever made, because it demonstrated, as I will show you, that the spare part prices are not isolated examples, but rather reflect pricing in general.

Again, the "iron curtain" bothers us. Mr. Parfitt was able to get the controller of Pratt & Whitney to give him the figures, which he did. The controller addressed an envelope with the data in it to Mr. Parfitt, but the controller was not allowed to send that directly to Mr. Parfitt. He had to give it to the Air Force plant representative who, after deliberation, would send Mr. Parfitt's mail to Albuquerque, NM, where it would be staffed and coordinated. That means they vote on it, whether they pass it on or not. After it passed that muster, it would be sent to Andrews Air Force Base, where the same process would take place, and if it passed, it would go to the Air Staff in the Pentagon, where it takes God knows how long, and after it passes there, it would go to another Assistant Secretary's office in the Secretariat, where the same process would take place.

Well, 1 month passed, and we ran it down, and found it was still stuck at Andrews, where the general that had it said he was not sure he wanted to give it. After a very unpleasant situation, we finally got it. It finally got to the Assistant Secretary, who said we could not have it. Fortunately, we did have it already.

I am sorry for the size of this. I have to explain what it says, Senators, because there were so many numbers we could not get it on.

This is the pricing formula used on one of the product lines at Pratt & Whitney. The pricing basis on each product line is the same, whether it is for the whole engine, or for a nut, or a washer, or whatever.

Now, we have all seen, and I think probably we picked unfairly on Pratt & Whitney——

Senator **Heflin**. Is this in your testimony?

Mr. FITZGERALD. Yes.

Senator HEFLIN. What number?

Senator GRASSLEY. The item you have on the screen, what page is it?

Mr. FITZGERALD. I am not sure I included that. The description is on page 27, starting on page 26 and 27, in the prepared testimony.

Senator HEFLIN. You do not have it?

Mr. FITZGERALD. I do not believe I do. I do not believe I have this picture in the exhibits, but I will be glad to furnish it for the record.

Senator HEFLIN. Is it possible that we could read it and see it? You could zero in on one or two lines, and then make it bigger.

Mr. FITZGERALD. Are there any Vu-Graph experts in the room?

Let me summarize. We have two columns, one markup for material, which is a separate issue, and we are still digging into that. The other is labor. The first line says standard labor. So $1 worth of standard labor, we paid $20.79. That is true whether you buy a washer or a whole engine. The markups are the same. You can see how it stacks up. We actually paid for this standard hour's worth of labor, in labor hours, $2.64, and then we had $11 for overhead. Just think of that, try that out.

This line here is what Mr. Spanton was trying to dig into, your witness in November, primarily. He was looking into this corporation's overhead rates. That was his primary focus. Unfortunately, he is no longer with us. He is retired and out of the picture.

So this to me was the most important story in the whole spare parts controversy, and as far as I know, has never been dealt with.

Chairman Grassley will recall when he was briefed by the two Air Force Generals, they said they had not dealt with the productivity aspects of it. They dealt with other aspects of it, but not that.

This has resulted in a continuing flow—the failure to deal with this has resulted in a continuing flow of horror stories.

You all remember the stool cap that was reported by Sgt. Keasly. Here is an example. This little piece right here, a piece of plastic, $1,100, $1,118.26.

Senator HEFLIN. Is it made of gold?

Mr. FITZGERALD. No; 26 cents worth of plastic.

One of our Air Force sergeants reported that through the hotline, and we got a hold of it.

Now, that was the good news on this. The other aspect of it was that our procurement people tried to explain that away.

Senator HEFLIN. Did you make any evaluation as to what a fair and reasonable market price would for that item?

Mr. FITZGERALD. Yes, sir, about $10, in small volume. If you have large volume, it is less. I think some of the TV people had picked it up, actually had some made at that price.

Senator BAUCUS. Is there any dispute from the contractor's point of view, as to how much they had allocated to this piece? Are those your figures, or the figures you are giving us, $1,100, agreed to by the contractor or by anyone who might be categorized as an adverse party here?

Mr. FITZGERALD. I believe they now agree that $10 might be a reasonable price.

Senator BAUCUS. I am talking about the $1,100.

Mr. **Fitzgerald**. I have what purports to be Boeing's own allocation of the cost of that. This was given to us, my associates and me. The figure was $916.55.

Senator **Baucus**. Boeing agrees they charged $900 for this item?

Mr. **Fitzgerald**. That is what our Air Force people tell us Boeing has agreed to do.

This particular chart, or a version of it, this was given to the Washington Post, was given to our office by way of explanation, the explanation that according to the procurement people, there is nothing wrong with the price. This is the price paid in the late seventies, $900. They said this is a reasonable, justifiable price, because Boeing actually spent that much money. They said they spent 49 production hours, factory hours, tooling, and planning, labor, another $2.86. Inspection, 8 hours of inspection, I do not know what they did for 8 hours. Sat on it. But that is the story, and if you add this up, $1,300 for overhead. This is for making three items.

Then you come up with an actual expenditure of $2,700, and divide that by 3, and come up with $900.

A couple of years have passed, and they had some markups from the Defense Logistic Agency, so it is already——

Senator **Grassley**. In the definition of the word "reasonable" that the Air Force would apply—this would be a reasonable cost?

Mr. **Fitzgerald**. That is the argument.

Senator **Baucus**. Mr. Fitzgerald, as I understand your testimony, and correct me if I am wrong, to a large extent, you are saying the overruns and costs are because the Government is paying for actual hours rather than should cost hours. Is that basically what you are saying?

Mr. **Fitzgerald**. Yes; that is basically it.

Senator **Baucus**. If that is the case, when, if ever, was the Government on a should cost hour basis? How long ago were we, if ever, on that basis?

Mr. **Fitzgerald**. Not within my lifetime, on a verifiable basis.

Senator **Baucus**. Were we ever on a should cost basis?

Mr. **Fitzgerald**. Not uniformly. We used to do it a lot better than we do it now.

Senator **Baucus**. For a long time we have been on actual costs, plus the add ons, which means essentially whatever they charge, we pay?

Mr. **Fitzgerald**. Yes, sir; but the insidious thing is once you pay it, that becomes the new standard of performance.

Senator **Baucus**. This is reminiscent of Medicare. Are you familiar with that?

Mr. **Fitzgerald**. Is it exactly like the usual and customary charge.

Senator **Baucus**. That we used to have. Up until 2 years ago, the U.S. Government reimbursed hospitals on a charged basis, whatever the hospitals charged, whatever it was, we paid that Medicare cost. Beginning 2 years ago, we changed, we changed from a cost basis over to prospective reimbursement.

As I understand it, prospective reimbursement is very similar to the auto mechanic—how many hours it should take to repair a certain part in an engine.

Mr. **Fitzgerald**. The Chilton Guide.

Senator **Baucus**. That is what we do with hospitals. We tell hospitals, for any procedure, let us say it is a hip replacement, we do not care where it is, whether it is in Chicago, or Miami, or Montana, that hip replacement will be reimbursed at a specific cost. So if the hospital is efficient and it actually costs the hospital less, then the hospital gets the profit. If the hospital is inefficient, and it costs the hospital $1,800, then the hospital has to bear the cost.

I am wondering whether something like that makes some sense in defense contracting. That is, someone, I do not know who would do this, but to figure out generally how much it should cost, and then hold the contractors to it.

It seems to me, as we get into this, it might be easier to determine what the should-cost hours should be to replace a clutch, let us say, in a car. That is a very standard procedure. It might be a little more difficult to determine what the should-cost hours should be for new weapons systems. Although, as I understand it, you are talking about additional orders and replacement parts, which should be much more routine. If they are much more routine, than the original weapons system in the first place, then we should be able to standardize those routine parts replacements and routine units for purchasing above and beyond what we purchased 5 or 6 years ago.

What I am driving at, give us your gut, honest sense, the degree to which someone with some objectivity could determine some objective, fairly routine should-cost hours to manufacture the part, or to manufacture the additional units of a fairly sophisticated unit.

Mr. **Fitzgerald**. Yes, sir; we can do that, and you are right, it is complicated, but the process is the same, the process for setting the should-take times. I have that responsibility, in theory, in the Air Force, to apply should-cost studies. I am simply not allowed to do it. That is the message I want to get across here.

The other point I wanted to make with respect to prospective pricing is that the procurement base procedure in doing cost-plus percentage, and in a strict legal sense, that is most of the time—however, when the base prospective prices on this kind of history, plus a little bit of increase for inflation, or whatever, you still build in all of the fat and inefficiency of the past.

What I am saying is our past history is no guide to what we should be doing.

Senator **Baucus**. Another set of questions, if you do not mind.

Are the Pentagon and our defense contractors just too big to get a handle on it? I ask this because I know, it was not too many years ago, must have been 15, 16 years ago, when the Federal Communications Commission was deciding whether or not to try to investigate the rates that AT&T charged. Pretty soon the FCC found out that AT&T was just too big; that is, the FCC did not have enough people to try to find out whether AT&T was overcharging, short-call or long-call rates, and that might have in some part led to the breakup of AT&T. It may have led to the breakup, in the mind of Judge Green and others.

Is the monster just too big?

Back to hospital reimbursement. One reason why it is perhaps easier to determine the actual costs for a hip procedure, or the various procedures, is because there are so many hospitals.

On the other hand, there are not many defense contractors. I am just wondering if we could follow the Medicare prospective model, or is the Pentagon too big?

Mr. **Fitzgerald**. Too big for the present amount of work we are getting out of them, but not too big to bring them under control, if we are determined to do so. The technical problem of finding where the fat is, if you will pardon me, is child's play. It is simple, straightforward industrial engineering and cost accounting. There is nothing to it, assuming you have an adequate experience in the business.

The problem of getting the fat out is political. That is the big problem. It is a matter of wanting to do it. Should-cost is a state of mind. You have to want to do it. You have got to want to take the billions of dollars away from the beneficiaries.

Senator **Baucus**. If the chairman will indulge me for a moment, that leads to another idea, which is, it seems to me, that military careers advance not according to whether a person is a good military strategist in the battlefield, or whatever, but comparatively speaking, more according to whether the person gets his weapons systems through the system, a new weapons system, through the Pentagon, through the White House, OMB, and the Congress. Careers, comparatively speaking, rise and fall somewhat, I do not want to overstate this, depending upon whether the colonel gets the system through the general, and so on.

If that is the case, and you tell me if you think that is true. Would the handle on this problem be in Congress? Would the confirmation process of the Senate—it seems to me if we could find some officer, and I do not want to make a big case, but someone who is in charge of the system, but is being very wasteful in his administration of it, when he comes up here and wants to be promoted from a brigadier general to a two star, we could say, you were in charge of this very, very costly program, and we are not going to promote you.

I am wondering if that is a way to get a handle, or am I barking up the wrong tree?

Mr. **Fitzgerald**. I see nothing wrong with that.

My associate, Dr. Amley, has written a number of papers, and he has concluded, and I am coming around to this point of view, that we probably should not have military officers in charge of the acquisition programs, that they are so vulnerable.

Senator **Baucus**. What if we did not promote somebody because that person is in charge of a very wasteful program?

Mr. **Fitzgerald**. That is exactly what should be done. One of my recommendations is would be to set the rewards and punishment system right side up. It is absolutely true throughout the Federal Government bureaucracy be getting money——

Senator **Baucus**. What do other countries do? In Germany—does Canada, or Italy, or France, they should share more of the Free World burden, but do those countries have an actual cost or should-cost basis?

Mr. **Fitzgerald**. I do not know; Dr. Amley is presently making a study. He tells me in France they do have a should-cost approach, but I do not know.

Senator **Grassley**. Basic to this, as a followon to what you have been trying to get at, and the purpose of this hearing, but access to that information, whether it be for Mr. Fitzgerald, or anybody in the Air Force, or those of us in the Congress, so that we could make a good decision as to what things should cost.

Mr. **Fitzgerald**. I do not have such access, and I am responsible for doing that in the Air Force.

Senator **Baucus**. Why do you not?

Mr. **Fitzgerald**. Why? I suppose you have to ask my associates and superiors.

Senator **Baucus**. What is your best guess?

Mr. **Fitzgerald**. It is embarrassing.

Senator **Baucus**. To a contractor and to some senior official in the Defense Department.

Senator **Grassley**. Something would cost 17 times more than what it should cost, that is very embarrassing.

Mr. **Fitzgerald**. We have tried very hard, and in my boss' office, we tried to tell procurement not to take what we call the defensive crouch, which they do. We would like them to look at these things as opportunities to save money, rather than reflections on their past performance. But that is a hard case to argue. It is a reflection on past performance. We have not made a big point of that. We have not really pointed fingers, or tried not to. We viewed it as opportunities to save.

But the point I wanted to make further with regard to this is even after we explained how silly this was to explain away and defend a stool cap for $1,100, this document was given to the Washington Post by way of an explanation. The same happened with Congressman Bedell's——

Senator **Grassley**. Senator Metzenbaum wanted to get in here with a question.

Senator **Metzenbaum**. Mr. Fitzgerald, you and I have had a long, running relationship, and it is sort of deja vu to see you here today. That I would guess that you have been before committees that I have either chaired or been a member of for the past 6, 7, or 8 years, during the period of your litigation, and thereafter, and as I sit here, I have a sense of chagrin, but more than that, total disappointment, not at you, but at the fact that our Government operates in this manner.

I am trying to figure out, and somewhat along the line of Senator Baucus' question, why. I must confess, I think that most people are honest. I think that most people, whether they are in the military or not in the military, try to do the right job, the right thing. I would think that most people in the Government would like to save the Government money, not throw away the Government's money, and yet, the fact is, you have come back and told us on a number of occasions, and I credit you for doing so, of these continued horror stories. I would say to my colleague, Senator Baucus, that if we raised the issue about some brigadier general being promoted and tried to slow down his confirmation by reason of that fact, if he did a yeoman job and was absolutely eloquent on the floor of the U.S. Senate, he might get six votes against that confirmation, and no more. It just will not happen.

I guess my real question is what is the basic reason? Why do people who are otherwise decent people, who pay their bills that come due, who are law-abiding citizens, who are concerned about balancing budgets, and concerned about Government, and a certain pride in the position that they hold, then across the board, are so irresponsible and really doing such harm to their Government, even to the point of refusing to permit you to come up here until the chairman was able to issue a subpoena. Why are there continued instances of this kind, coming before hearings of the Congress, and when we get all done and make the exposures, nothing happens?

Mr. **Fitzgerald.** I think that nothing happens is the reason. Nothing does happen as a result of all of these disclosures. For whatever reason, money is voted to pay for this.

Anticipating one of my recommendations, Dr. Amley wrote me a memo recently, pointing out to me that none of these disclosures had ever really been serious problems for the acquisition community. They have plenty of money to pay for them. There is no problem from that standpoint.

I think if we were to get honest answers from the leaders of the acquisition community, and a responsible question, what are your major problems, they would say, Fitzgerald, Amley, and Parfitt. The would-be cost cutters are the problem, not high costs, and nothing happens. That is as a result of the disclosure.

Admiral Rickover gave eloquent testimony last September 29 before the House Banking Committee, where I also testified. In addition, and I am jumping ahead, but it is appropriate——

Senator **Heflin.** Before you do that, Senator Metzenbaum has brought up the fact that you have been around, and you mentioned three people. Has the inspector general—what relationship have you had since the inspector general's department was created? Have they been to see you? Have you had interviews with them?

Mr. **Fitzgerald.** Generally, it has been good, but I have something that the subcommittee staff asked me to comment on briefly at the conclusion of my regular testimony.

I was very disappointed in one of their recent pieces of work, and I have done an analysis of it. The inspector general has been an improvement, I think, in some respects. However, these organizations often get captured by the people they are overseeing. It takes constant vigilance.

Senator **Heflin.** One of the issues before Congress was whether or not it would be an independent inspector general's department, or whether it would be under the supervision of the Secretary of Defense. As we monitor them, the question of independence is an important issue in this.

We can go into that in more detail later.

Senator **Baucus.** To get back to the size of the Pentagon and the reason nothing happens is because we are all so busy, all of us in Congress, and it is hard to dig down to the inner levels of the Pentagon, and find out what is happening. It is such a mammoth budget, and we are all so busy.

I was on the Appropriations Committee in the House, it was obvious to me that the agencies that we are asking questions of have tens of hundreds of people who spend their whole time game planning answers to our questions, whereas we are all busy. It is hard to follow through.

Senator **Metzenbaum**. My question is—I understand that Congress cannot do the day-to-day operation. Why is not the Secretary of the Air Force more concerned? Why is not the Secretary of the Defense more concerned? Why are not the people in the field——

Senator **Baucus**. I am told that often the Secretary of Defense does not know what is going on. The Secretary's Office is being told what is going on by others, and they are protecting their own turf, and it takes a very, very special Secretary of Defense to penetrate all of that staff to find out what is going on. And it is partly size.

Senator **Grassley**. In an effort to avoid the subpoena, I had written a handwritten note to Vern Orr. I do that quite frequently, and, quite honestly, it has gotten me a lot of information. But as a last-minute effort to avoid the subpoena, I sent a handwritten note, and it was opened by a lieutenant general, and I got back a handwritten note from a lieutenant general. I do not know whether my personal relationship with Vern Orr is out the window now, or what I am supposed to read into a lieutenant general opening my personal note to Vern Orr. I thought we could avoid this. But we could not.

Again, in just attempting to get information, not to make a judgment on that information as a subcommittee, but so the whole Congress could have access to the information, ironically, we had information blocked on the very subject of the flow of information to Congress.

Senator **Metzenbaum**. I never did hear, why did the lieutenant general tell you the Air Force was not willing to have Mr. Fitzgerald come up here and testify?

Senator **Grassley**. Because the testimony did not conform to policy. At this point we still do not know what the policy that is being violated is. That is what Mr. Fitzgerald would like to have had an explanation of. I did send previous letters to the Air Force, asking how this testimony violated the policy, and prior to the handwritten note, I had gotten back a second standard two-line letter saying it just violated the policy.

So you see, it is the usual bureaucratic stonewall that is going on.

I think we ought to—could we finish the testimony, do you suppose, by 11:30, if we do not interrupt you?

Mr. **Fitzgerald**. Yes; I can finish very quickly.

The kind of thing that I was just showing you on the stool cap is repeated frequently.

Congressman Berkley Bedell took a list of more or less standard tools that could be bought at a hardware store, that the Navy had paid over $10,000 for, and bought them at retail, the same of better quality, for $92. This was retail, remember. Defenders of this practice say, well, he did not include gas and time. But you might reasonably assume that the Pentagon could buy it wholesale.

Senator **Heflin**. Is that in your testimony, the price differential?

Mr. **Fitzgerald**. Yes, that is exhibit 13 in my testimony.

Again, let us take the hammer. The Navy came back and said it is unfair to criticize us because this price is justified.

Here we have the hammer, a hand sledge, they paid $7 for it. They charge all this time, 2.6 hours of engineering support at $37; manufacturing support for $93, and manufacturing overhead, $2,393, and you add that up to $436. I suppose they will claim that they actually spent that money.

Here we have the justification that is repeated in our recent review in the Air Force for part of the spare parts crisis.

We wondered in our office how anyone could conclude on the basis of what we had that either 92 percent, to use the Air Force's figure, or 94 percent, to use the figures emanating from the Department of Defense, of the spare parts volume figure were reasonably priced.

This is one definition of a fair and reasonable price included in the Armed Forces procurement policy, a price that closely approximates the seller's price to make or acquire the part, plus a reasonable profit

Senator GRASSLEY. Let me highlight that. I am not going to ask a question, or interfere, because I want to get done, but for my colleagues, for a definition of reasonable, just take note of that, please.

Mr. FITZGERALD. I would submit to the subcommittee, in light of the kinds of things that we have talked about, and Senator Grassley has talked about, that is simply crazy. It does not make any sense, but we do it.

You asked me why we do it. That is one of our policies, and that needs to be changed.

I have one other item that the subcommittee staff has asked me to cover.

Senator GRASSLEY. Repeat again, for added emphasis, the point you were trying to make on reasonable and reasonable price.

Mr. FITZGERALD. I think the criterion that we showed on the screen, whatever the contractor spends to make or buy the part, plus a reasonable profit, is a reasonable price, is just crazy. I do not think that makes any sense, particularly in the context of enormously high costs that we are seeing, both on little parts, like the $693 washer that I am holding up, or the sheaf of efficiency figures that Senator Grassley has. It makes no sense to assume that just because the contractors are spending the money, it is a reasonable price.

To shift gears, the subcommittee staff asked me to comment on, first, on my nonappearance at the March 1, 1984 hearings before another committee, which I did in an April 3d letter to Senator Grassley, and more recently, on an inspector general's report of my nonappearance.

In my first memo, I anticipated, without knowing what was in the inspector general's report, several of what appear to me to be flaws in the logic. The inspector general's more recent report assumes that there are only two alternatives to Government employees' appearances, either as a spokesman, quote unquote, for the entire organization, of a private citizen.

I was urged, and have all along appeared as a private citizen. I am reluctant too to do that. In 1968, as some of you know, I got into a lot of difficulty in telling the truth about the C-5 transport plane. That truthful testimony was brushed off with a bale of letters on behalf of President Nixon that said, standard clause, in this regard, when assessing the personal views of any one individual as related to such issues, it should be emphasized that they represent a single opinion, rather than a balanced picture of the situation.

Well, I anticipated that whoever reviewed that would not pick up that there is a third alternative, and that is the alternative that I am appearing here today, as an official representative, not a private citizen, but neither am I pretending to be spokesman for the entire Department of Defense.

The other fallacy that is embodied in there is that he lumped together two hearings. They were separate and distinct hearings, separate subjects and separate invitees, and he lumped them together.

But I was concerned about another aspect, and I submitted copies to Senator Grassley. The inspector general concluded that I did not appear because I did not want to appear, or I chose not to appear, and the reason was that my testimony lacked balance.

I want to read to you the handwritten memo. It says, after discussion with the area staff of OSD, we do not believe the subject statement should be processed because it lacks balance, and, get this, and contains harsh criticism of a DOD.

It is signed by Mr. Harshman, and dated.

The latter part was left out, both in the conclusions and the summary of the case. In fact, the criticism of the DOD agency, the Defense Contract Audit Agency, is what the hearings were about.

My boss has told me repeatedly, it is the DOD and DCAA.

I have outlined another whole series of other failings in the report, but the most disturbing to me of all was the way he dealt with the letter that I wrote to the chairman, Chairman Roth of the other committee, in which I stated some of my reasons for not being able to appear.

The inspector general purported to quote my letter as follows: however, the main impediment to the completion of my draft report is OSDA and DCAA workpapers on which the committee staff has asked me to comment.

That sounded like they had given me so much help I could not get my statement together. In actuality, I wrote, the main impediment to completion of my draft report is OSDA and DCAA's refusal to furnish the audit reports, and so on.

Now, that is different. I just think it is inexcusable to use something—a misstatement of a person's own correspondence to try to impeach him.

Senator **Grassley**. I would ask the committee to consider, as I stated in my opening statement, United States Code, title 18, sec. 1505, which governs attempts to influence, obstruct or impede a witness before a committee, as well as attempting to retaliate against a witness, as something we need to be cognizant of, as we consider some of the attempts that have been made to keep Mr. Fitzgerald, and maybe others, from testifying before various committees of Congress.

Mr. **Fitzgerald**. There are many other aspects of that report which I found to be downright bizarre, that I am eager to know about.

I do not want to comment on the quotes they attribute to the Secreatry of the Air Force because of the unreliability of some of the other extracts, but it would seem to me if an agency is going to issue an investigative report that is based on selective quotations, that they ought to release the entire document.

I will release my sworn statement, and I have done so by giving it to Senator Grassley, and extra copies are available for other members. Thank you very much.

Senator **Grassley**. We have some questions, presumably, even though we have interrupted you. But have you taken this matter up with the Secretary of the Air Force, Vern Orr?

Mr. **Fitzgerald**. Yes, sir; not the most recent happenings, because I have not been able to see him. I met with Mr. Orr on a number of occasions, both with and without my associates, and on one occasion I met with you and Mr. Orr to discuss the same matter.

I presently have in a request to see him, and it is my hope that we can get back on track, because all my associates want to do is do our job. We have no ambitions to go higher in the bureaucracy, or anything like that.

Senator **Grassley**. Senator Heflin.

Senator **Heflin**. I was asking you about the inspector general, and you did not complete it, and you said later in your testimony you would. Would you refer to that? You indicated there was an improvement since the creation of the inspector general's department.

Mr. **Fitzgerald**. Yes, sir.

Senator **Heflin**. But sometimes they might have developed buddy-buddy relationship, or words similar to that description. Would you elaborate on your experience with the inspector general's department?

Mr. **Fitzgerald**. My relations, particularly with Mr. Vander Schaaf, have been very helpful. I recounted one of those occasions in my March 1 testimony, when he tried to help us with a time keeping problem we had with one of our contractors, without success. We were blocked by the Defense Contract Audit Agency.

However, as I recounted in my prepared testimony, we have been refused information, and this latest episode, which appears to me to be an avoidance of the main issue, to change the subject of the shortcomings of the Defense Contract Audit Agency, disturbs me greatly, Senator Heflin, and I am puzzled by this report, and by the implications, the avoidance of the criticism of DCAA distrubs me very greatly, failure to deal with that important matter.

Senator **Heflin**. Let me ask you this. Do you think there could be improvement if Congress were to adopt a law that no one in the civil service of the Department of Defense and the Defense Agency, and no one in the armed services who goes into retirement can enter into a contract of employment with a defense contractor for a period of 3 years—until the expiration of a period of 3 years after retirement?

Do you think that would bring about better relationships in the Department of Defense and the defense contractors in the matter of dealing with defense contracts?

Mr. **Fitzgerald**. Anything that could be done to slow down the spinning of the revolving door, as we call it, would help. Dr. Amley's approach to the same problem was to remove temptation from those people who were subject to early retirement, as most military officers are, by removing them from the business. That is another way of doing it.

There is currently a proposal, I believe, over in the House, to do more or less what you are suggesting, Senator Heflin, but I think it has a unique feature, in that it places potential penalties upon the employer. This has to do with illegal aliens.

We have had rules that were supposed to prohibit the worst of the abuses for a long time, but they do not seem to be enforceable.

Senator **Heflin**. That is all.

Senator **Grassley**. Senator Baucus.

Senator **Baucus**. You earlier said that in your judgment that 30 percent of the dollar amounts of contracts are wasted, and the same system could be obtained for 30 percent less cost with no difficulty and problems.

The question is, where does that 30 percent go?

Mr. **Fitzgerald**. It goes for excess employees, excess floor space, sensitive material prices. I do not think it goes to excess profits as such, although there is a lot of them.

Senator **Baucus**. Do you think a lot goes to excess profits for officials in the companies, but more of it goes to Cadillac sort of operation?

Mr. **Fitzgerald**. In the kinds of things Mr. Spanton was trying to figure out, excessive executive compensation.

Senator **Baucus**. Executive compensation, but also—bigger labor force than needed, fancier equipment?

Mr. **Fitzgerald**. More people, that give them political clout. They can come to Congress and threaten to lay off 70,000 if they do not get their contract, better than if they say we will lay of 7,000.

Senator **Baucus**. I want to focus a little more on OMB. During Democratic administrations and Repubican administrations, it seems to me that would be a focal point to cut down on defense contracting costs.

Why has not OMB done a better job during the past 15 years, during both administrations?

Mr. **Fitzgerald**. I think OMB is not as powerful, in political circles, as the Department of Defense. I have seen occasions where they have tried, and they have been flattened. I just do not think they have muscle. If the President wanted to do that, he could support them. But I do not recall that happening to any great degree in the past.

Senator **Baucus**. Essentially you are saying in political terms the Pentagon overrules OMB?

Mr. **Fitzgerald**. It seems to me from my lowly position.

Senator **Baucus**. You probably see it from a very good position. What about the reasons for not giving the information? You pointed out it is not a policy to give out this information? Has national security ever been given to you as a reason?

Mr. **Fitzgerald**. No, no, sir; not directly. In one of the exhibits I have attached to my testimony—one of our Air Force officers wrote to me and Dr. Amley that our actions were causing discredit to come upon the buying community.

Senator **Baucus**. What I am driving at is that national security has not been given as a reason for not divulging this information?

Mr. **Fitzgerald**. No.

Senator **Baucus**. Have you been given any other reason as to why this information should not be given to you. Is there a proprietary interest?

Mr. **Fitzgerald**. That is argued. It is one of the reasons I did not give out any of the new figures, because I would probably get in difficulty for it. Senator Grassley has a whole fat sheaf——

Senator **Baucus**. Do not get into any more difficulty.

Mr. **Fitzgerald**. Senator Grassley also has a whole fat sheaf, and you can study it for yourself. Unfortunately, because of the past experience, our bureaucrats and senior officials do not view that as bad performance.

Our staff summary sheet that came up accompanying Senator Grassley's requested information said generally performance is very good. It is dreadful, not very good at all. But they were purported to believe that, and perhaps some of them did, and to the extent they actually believe it, it really bothers me.

Senator **Baucus**. It is not national security, and sometimes it is proprietary interest given as the reason. There are ways to get at legitimate proprietary interest questions. So that is not——

Mr. **Fitzgerald**. That is not a real reason.

Senator **Baucus**. And national security is not a legitimate reason.

Mr. **Fitzgerald**. No, sir.

Senator **Baucus**. Is there any real reason?

Mr. **Fitzgerald**. Escapes me, if there is.

Senator **Baucus**. You have not been given any other reason, other than policy?

Mr. **Fitzgerald**. I am told that my statements have not been—the closest I was given came to me secondhand, from a reporter who said he had been told that it was the point of view that the administration policy was to do things in a certain way. That is an exact quote. I am very glad to clear that up for you. That is actually what they are saying.

Senator **Baucus**. Thank you.

Senator **Grassley**. Senator Metzenbaum?

Senator **Metzenbaum**. Mr. Fitzgerald, Senator Heflin questioned you about the 3-year period intervening between the time the door opens. Is there a law now that has a 1-year prohibition against a member of the military taking a job? Only if that individual has dealt with that particular contractor? That is the only area of limitation that is in the law. Is that correct?

Mr. **Fitzgerald**. I am not expert on that law. I have not read it for a long time. My impresssion is it is most stringent on attorneys. They cannot represent the client before the agency which they served.

We have a requirement that I believe was passed in 1969 or 1970, that high ranking military and civilian people that left the Pentagon have to register their employment with the contractor they go to work for, and they are not supposed to engage in salesmanship, or selling, but that is easily evaded.

Senator **Metzenbaum**. I recollect there is some prohibition, maybe for a year, in connection with those contracts with respect to which the individual was involved. He can go to work for the defense contractor on anything else, and I remember specifically that the individual who gave out the Navy leases—remember, we had an issue on the floor having to do with Navy leases, and the tax gimmicks that were involved with that—and the cost to the Government, the loss of dollars, and that a number of those were given to one of our major defense contractors. The individual gave them out, then wound up working for that company, and the argument was made, but he has nothing to do with that particular subject. He is in a different area entirely.

I would say, Senator Heflin, if you have a real interest in exploring this total prohibition for 1 year, 2 years, or 3 years, I am certain that this Senator would be very much of the mind to be supportive, because I do believe that the revolving door provides much of the problem about which you speak, and we in Congress have not bitten the bullet, and I would hope the Chairman would see fit to sponsor legislation to close the door on this revolving door issue which—there is no question in this Senator's mind that it has a major impact on what takes place in the procurement process.

I would like to ask you a question. My understanding, and you may have addressed yourself to this before I got to the hearing, some contractors have been willing to give you information, but the Air Force itself has objected.

I am told that Pratt & Whitney agreed to provide information about spare parts pricing, but then they were told by the Air Force that the information could not be sent to you. Instead they have to send it to an Air Force Official, who had to send in on to Albuquerque, NM, and that official would send it on to Andrews Air Force Base, and then to the Pentagon, where, after something called coordination, it would be passed on to an assistant secretary, who might or might not pass it on to you.

Is that a correct recitation of your relationship with Pratt & Whitney?

Mr. **Fitzgerald**. Yes, sir; that is exactly right. It has to do with the Parfitt report, by Colin Parfitt, which I described in my written testimony and exhibits.

We were able to break into the middle of that process, through a very unpleasant series of confrontations, and actually get the information we needed, but that—what you just described is what is called going through channels. It is actually somewhat worse, because they do what is called staffing and coordination at each level, and in effect, vote on whether we should get the information.

One of the attachments to my testimony deals with the silliest example. It took us months to get copies of two letters, in which small contractors were complaining that they thought they were being threatened by big suppliers not to deal directly with the Air Force. Not a soul dealt with the subject matter of the letters. They all voted on whether they should give it to Fitzgerald. We finally got it. They did vote it.

Senator **Metzenbaum**. If the Air Force is not embarrassed, then they have no sensitivity at all, because this is an absurd procedure of excess bureaucracy, of tying down any procedure, instead of making headway on effective cost pricing.

I would like to commend you, Mr. Chairman, for your role in this entire matter. You have had the courage of your convictions, and provided a useful function. Although I am not a member of your subcommittee, I came over to sit in, because I think you are doing a good job.

Senator **Grassley**. Thank you for your kind remarks, and I appreciate your participation, and look forward to your advice since you have been through this process before, on what courses of action might be taken, particularly as to just getting information.

I want to, first of all, get the information on the problem, because where the sun shines in, it is difficult to hide wrongdoing. But where there are attempts to keep information, or more wrongly, to cover it up, that is where we have problems.

I want to say, also, before you go, that Senator Thurmond, who is chairman of the full subcommittee, and has been supportive of my efforts in having this hearing, was not able to sit in on the hearings today, but he did have a short statement.

We will submit it for the record.

[The following was received for the record:]

PREPARED STATEMENT OF SENATOR STROM THURMOND

Mr. Fitzgerald, the data that you have supplied to my colleagues on this subcommittee has me very concerned. In fact, we are all concerned. The American people firmly support a strong defense, but they expect the price that we pay for defense to be fair and equitable.

We hear a lot of horror stories in the Senate about what the services and the Department of Defense pay for various spare parts and items of equipment. Because the Department of Defense is the major purchaser in the U.S. government, the Congress is rightly concerned that we pay a fair price for anything that we buy.

Senator **Heflin**. Can I ask one question on the pricing, of this hammer? You have it listed as $7.66, and it cost the Government $435. As you have it itemized, I notice, for example, that it has program management. It took 1 hour's time to buy one hammer. And then I see listed there, under program planning, 4 hour's time to buy one hammer, and then I see manufacturing and product engineering to buy one hammer, plus a lot of other things that are involved. It looks like it took the Secretary to purchase the hammer.

Is this type of accounting with the allocation of time to management, engineering, planning, and all of that carried out with every item of purchase that the Department of Defense and any agency of the Department of Defense involves itself in?

Mr. **Fitzgerald**. I cannot say every item.

Senator **Heflin**. Is it done in the Air Force?

Mr. **Fitzgerald**. That is very common. Under our new procedures, we would hope that we would catch that, because it is called a hammer, and would, obviously, be bought some place else, but what has happened in the past, we have been through this cycle half a dozen times, as Mr. Vander Schaaf will tell you, what they will do next time is call it a multidirectional inertial device. They will not call it a hammer.

But, yes, the allocations are done that way all of the time, and I would be willing to bet that the project manager was never even aware that he charged that time to the hammer.

Senator **Heflin**. Program planning, 4 hours. We started this at 10 o'clock. We have been here less than 2 hours. I would imagine he had to do a lot of cogitating for 4 hours to figure out whether he wanted to buy a hammer. Each hammer, if there were a thousand hammers bought—well, it seems to me that the program planner, he did a lot of planning.

Senator **Grassley**. In regard to this plastic stool cap, the Secretary of the Air Force himself told me the most embarrassing thing about the cost analysis of this was he did not see how anybody could charge two 8 hour days, at 16 hours a day, to inspect this item.

Mr. **Fitzgerald**. I do not, either.

You are going to hear, on Wednesday, Senator Heflin——

Senator **Heflin**. They also have 1 hour for quality control. On a hammer—if you buy it, I do not understand the quality control.

Mr. **Fitzgerald**. Nor do I.

You will hear from one of our Air Force Industrial Engineers on Wednesday, and I do not want to preempt his testimony, but one of the things he will talk about is the purchase of pliers for over $700, and how that is justified under the weird procedures that we follow, and he shows a drawing. I have seen that, too.

Many times hardware items are procured or bought, and the company engineers will make a drawing of it, put a company part on it. Thereafter, if the sergeant wants to resupply himself, he will simply specify that part number, and they will buy it again. So they often do that.

I think Mr. Chauhan's testimony, if you ever get it, will show you a drawing of the pliers.

Senator **Heflin**. Is anything on the sheet that would show the number of hours the accountant had to spend to go through to break down these individual items from the overall total cost of the project?

Mr. **Fitzgerald**. That would be buried in overhead.

Senator **Heflin**. I do not see that. I believe they have omitted that. They could have charged more.

Senator **Grassley**. Thank you, Senator Heflin.

There is one other item that I would like to ask that you do, and I do not know whether this would be an extraordinary request, or whether Government employees do this on a regular basis. But I would like to request that you would conduct what I would refer to as a should-cost seminar, and I would like to have you do it before Congress adjourns this week, and it would be for the benefit of Congress, staff, and the public.

Would you agree to do that?

Mr. **Fitzgerald**. Yes, sir.

Senator **Grassley**. Can you do it this Friday morning?

Mr. **Fitzgerald**. I believe so. I will check my calendar.

Senator **Grassley**. The reason I am asking you to do this is we in the Congress, our staff, and the public at large, ought to undergo an extensive education process as to what our dollars are used for.

We are talking about spending more on defense than ever before, and quantitywise, we are getting less for it.

When we have a $200 billion deficit facing us for as far as we can see into the future, this is a serious situation. I would like to suggest, I will coordinate this activity through my personal office.

I would also like to request that you remain in the room, in case we have some reason to call you again. I would appreciate that very much.

So I thank you for testifying, Mr. Fitzgerald.

Mr. **Fitzgerald**. Senator, my testimony ran on, so I did not have time to go into my recommendations, but my first recommendation is that we make the world safer for cost cutters, so to speak.

I would like to make a special plea in the case of Mr. Chauhan, who is going to appear, I hope, here on Wednesday. I am reasonably high up in the organization, and have a lot of experience, and have sort of taken care of myself.

Mr. Chauhan has not, and I would like to make a special plea that you bear that in mind in the dealings with Mr. Chauhan, and do whatever can be done to ease the way for him. I appreciate your help in my own situation.

Senator **Grassley**. I would assume the statutes that I have referred to already is adequate protection. I suppose you found out they do not, in your case, but I hope we are wiser now, those of us in the Congress requesting the information, that we do what we can to protect you honest people. So far, though, Mr. Chauhan's testimony has not been cleared with the Air Force. We may be going through the same thing that we went through in regard to your appearance in your official capacity, and testifying, and on information that you know because of your official capacity, and what Mr. Chauhan may be attempting to do, and I suppose I ought to put everybody on notice that this subcommittee will not tolerate this any more in the case of Mr. Chauhan than we did in the case of Mr. Fitzgerald.

Senator **Baucus**. I want to commend you, Mr. Fitzgerald, for what you are doing. You have been through a lot. You have seen a lot. You have taken great risks at your own expense, and I would speak for myself and thank you for what you are doing.

I think I can speak for this subcommittee and people in the country, that we appreciate what you are doing. There are two sides to every story, but I think all of us sense that what you are saying has more truth in it than fiction, and we appreciate what you are doing.

A lot of the burden is now up to us. A lot of the midlevel people in the Pentagon, and a little higher up, that have been there for a long time—a lot of them think this is another one of those storms. Congress will forget about it after a few weeks. Congressmen come and go, get elected and unelected. So it is up to us to say that we have the staying power and consistency to follow this through, because otherwise these hearings today will not amount to very much.

Senator **Grassley**. I agree with the observations of the Senator from Montana, and I thank each of my colleagues for their questions to Mr. Fitzgerald.

Now that Mr. Fitzgerald's testimony is over, and before I call the next witness, I would like to refer to something I alluded to before. I want to clarify that Mr. Fitzgerald's written statement was selected by the subcommittee pursuant to a subpoena. That subpoena did not contain any disclaimer.

The Air Force did supply us with a statement, in which they say that these are not necessarily official Air Force views. The original, as well as the later submitted testimony will both be placed in the record.

[The following was received for the record:]

PREPARED STATEMENT OF A. ERNEST FITZGERALD

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

IN CONVERSATIONS WITH YOUR STAFF IN PREPARATION FOR THIS TESTIMONY, I HAVE LEARNED THAT YOUR PRIMARY INTEREST IS IN FLOW OF INFORMATION WHICH ALL OF US IN THE GOVERNMENT NEED TO PROPERLY CARRY OUT OUR STEWARDSHIP RESPONSIBILITIES, ESPECIALLY WITH RESPECT TO DOD MAJOR ACQUISITION PROGRAMS.

SINCE I UNDERSTAND YOU WILL HAVE OTHER WITNESSES TO DISCUSS THE DIFFICULTIES OF ACQUIRING INFORMATION FROM THE CONTRACTORS THEMSELVES, I SHOULD LIKE TO FOCUS MY REMARKS ON PROBLEMS OF INFORMATION FLOW INSIDE THE GOVERNMENT.

FIRST, SOME BACKGROUND. EVEN THOUGH I HAVE BEEN ASSOCIATED WITH MILITARY ACQUISITION OFF AND ON FOR 30 YEARS, I WAS EFFECTIVELY EXCLUDED FROM MEANINGFUL DOD MANAGEMENT PARTICIPATION IN THIS PROCESS FROM LATE 1968 WHEN I TESTIFIED ABOUT THE THEN UNREVEALED COST OVERRUNS AND OTHER PROBLEMS ON THE C-5A PROGRAM UNTIL 1982 WHEN I REACHED AGREEMENT WITH THE PRESENT MANAGEMENT OF THE AIR FORCE TO GET ME BACK IN THE ACQUISITION MANAGEMENT BUSINESS. A COPY OF THIS AGREEMENT, DATED JUNE 15, 1982, AND ASSOCIATED DOCUMENTS, INCLUDING AN ANNOTATED COPY OF MY POSITION DESCRIPTION, ARE INCLUDED IN ATTACHMENT 1.

IN ANTICIPATION OF THE JUNE 15, 1982 SETTLEMENT AGREEMENT, WHICH HAD BEEN IN NEGOTIATION FOR ABOUT A YEAR, I WAS GIVEN ASSIGNMENTS TO LOOK AT OUR ACQUISITION MANAGEMENT PROGRAMS STARTING ON MARCH 29, 1982. TO CARRY OUT PART OF THIS ASSIGNMENT, I AND SOME OF MY ASSOCIATES IN THE AIR FORCE MADE A SERIES OF VISITS TO OTHER AIR FORCE AND CONTRACTOR OPERATIONS. IN MAY OF 1982, MR. JAMES RIRIE, MR. COLIN PARFITT, L/C STANLEY KAGAN AND I VISITED AIR FORCE PLANT 44 IN TUCSON, ARIZONA, AND REPORTED BACK THAT, AMONG OTHER THINGS, THE TENANT CONTRACTOR, HUGHES AIRCRAFT, WAS EXPENDING

17.2 ACTUAL DIRECT "TOUCH LABOR" HOURS FOR EACH STANDARD HOUR* OF WORK PRODUCED ON THE IIR MAVERICK (ATCH 2). IN MY VIEW, THIS WAS THE GOOD NEWS. THE BAD NEWS WAS THAT THE INEFFICIENT FACTORY WAS PROBABLY THE MOST EFFICIENT PART OF THE HUGHES_TUCSON OPERATION. AS OF MAY 18, 1982, HUGHES HAD PRODUCED 93 EQUIVALENT UNITS OF IIR MAVERICK AT AN AVERAGE COST FOR RECURRING LABOR AND ASSOCIATED OVERHEAD (ENGINEERING DESIGN COST EXCLUDED) OF $892,000 PER UNIT. USING THE WORK CONTENT OF THE IIR MAVERICK MISSILE, DETERMINED BY HUGHES' PRODUCTION ENGINEERS TO BE 262 STANDARD HOURS OF OUTPUT (ATCH 2), WE FOUND THAT HUGHES MANUFACTURING WAS COSTING US $3,405 PER STANDARD HOUR OF OUTPUT. WE WE TOLD THAT THE PAY OF THE FACTORY PRODUCTION WORKERS RANGED FROM LESS THAN $4 PER HOUR TO A HIGH OF AROUND $15 PER HOUR. IF WE ASSUME AN AVERAGE OF $10 PER HOUR THEN THE 17.2 HOURS OF FACTORY LABOR USED TO ACCOMPLISH EACH STANDARD HOUR OF OUTPUT WOULD HAVE COST US $172 -- WHICH IS A MERE 5% OF THE $3,405 TOTAL COSTS THAT HUGHES CHARGED THE AIR FORCE FOR EACH STANDARD HOUR OF OUTPUT PRODUCED.

THAT DOES NOT MEAN WE SHOULD NOT FOCUS VERY STRONGLY ON FACTORY EFFECTIVENESS. MANUFACTURING IS WHAT AIR FORCE PLANT 44 IS IN BUSINESS FOR AND IS THEREFORE PROPERLY A MAJOR FOCUS OF INTEREST IN OVERALL PRODUCTIVITY, INCLUDING BOTH LABOR EFFICIENCY AND PRODUCT QUALITY. HOWEVER, THE EXTREMELY HIGH OVERHEAD AND SUPPORT COST INDICATED THAT WE SHOULD TRY TO GRIND DOWN THE OVERHEAD AND SUPPORT COST GENERATORS, AS WELL AS STIMULATING IMPROVEMENT IN THE BAD FACTORY. TO THIS END, GENERAL DRIESSNACK, THEN ASSISTANT VICE CHIEF OF STAFF, DIRECTED THAT A SHOULD-COST STUDY BE CONDUCTED AT HUGHES.

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*HUGHES AIRCRAFT COMPANY MANUAL, "WORK MEASUREMENT SYSTEM", DATED AUGUST 1978, DEFINES A TIME STANDARD AS, "THE TIME ALLOWANCE FOR A QUALIFIED WORKER, WORKING AT A NORMAL PACE UNDER CAPABLE SUPERVISION AND EXPERIENCING NORMAL FATIGUE AND DELAYS TO DO A DEFINED AMOUNT OF WORK OF SPECIFIED QUALITY WHEN FOLLOWING A PRESCRIBED METHOD." ALL HUGHES STANDARD OR "SHOULD TAKE" TIMES REFERRED TO IN THIS STATEMENT WERE SET BY HUGHES OWN ENGINEERS, PRESUMABLY FOLLOWING THEIR COMPANY'S POLICY.

AFTER OUR VISIT AND OUR SUBSEQUENT REPORT ON THE SITUATION AT HUGHES, AIR FORCE CONTRACT MANAGEMENT DIVISION (AFCMD) WAS CHARTERED TO CONDUCT A STUDY TO EVALUATE THE NEED FOR EXPANSION OF AIR FORCE PLANT 44 TO ACCOMMODATE PROJECTED INCREASED PRODUCTION. WE CONTACTED THE AFCMD EVALUATION TEAM AND SUGGESTED THAT THE MOST IMMEDIATE MEANS OF INCREASING PRODUCTION AT PLANT 44 WOULD BE TO UTILIZE EFFICIENTLY BOTH THE EXISTING PLANT AND WORKFORCE, WHICH WAS NOT BEING DONE. OBVIOUSLY, IF FACTORY WORKERS WERE PRODUCING AT AN AVERAGE OF 6% OF NORMAL INDUSTRIAL EXPECTATION, WE COULD VASTLY INCREASE PRODUCTIVE CAPABILITY SIMPLY BY HAVING EVERYONE WORK AT OR NEAR NORMAL INDUSTRIAL EXPECTATION LEVEL.

ATTACHMENT 3 WAS DEVELOPED FROM THAT PORTION OF THE AFCMD HUGHES CAPABILITY STUDY CONDUCTED BY CMD INDUSTRIAL ENGINEER, MR. OMPAL CHAUHAN. AS YOU CAN SEE, MR. CHAUHAN CONFIRMED OUR FINDINGS RELATIVE TO INEFFICIENCY LEVELS, SHOWED THAT THE TREND OF ACTUALS WAS IN THE WRONG DIRECTION, AND ADDED INFORMATION ABOUT THE CATASTROPHIC INCIDENCE OF SCRAP AND REWORK. THIS LATTER STATISTIC QUANTIFIED MY OWN OBSERVATIONS OF THE DEPLORABLE QUALITY CONTROL CONDITIONS AT AIR FORCE PLANT 44.

AFTER REVIEWING OUR FINDINGS, THE THEN ASSISTANT SECRETARY OF THE AIR FORCE FOR FINANCIAL MANAGEMENT, MR. RUSSELL D. HALE, DIRECTED THAT WE GATHER INFORMATION ABOUT STANDARD OR "SHOULD-TAKE" HOURS, COMPARED TO ACTUAL MANHOURS EXPENDED FOR A NUMBER OF AIR-LAUNCHED MISSILES. MR. HALE WAS CONCERNED THAT READERS OF OUR REPORT MIGHT CONCLUDE THAT THE IIR MAVERICK MANUFACTURING EFFICIENCY WAS BEING UNFAIRLY SINGLED OUT. HE ASKED US TO PUT TOGETHER INFORMATION SIMILAR TO THAT WE HAD GATHERED ON MAVERICK FOR A NUMBER OF OTHER AIR-LAUNCHED MISSILES AND PRESENT IT IN THE SAME FORMAT THAT WE HAD ALREADY PROPOSED FOR ROUTINE REPORTING ON IIR MAVERICK.

AT THIS POINT, MY NARRATIVE BECOMES SO COMPLEX THAT I WANT TO DEAL WITH THE MATTER IN A CASE STUDY FORMAT. MY ASSOCIATES AND I ARE COLLECTING DOCUMENTATION FOR A NUMBER OF SIMILAR STUDIES SO THAT THOSE WHO FOLLOW US MIGHT AVOID OUR MISTAKES THROUGH SUPERIOR

INITIAL KNOWLEDGE OF BUREAUCRATIC POLITICAL MECHANISMS. I SHALL INCLUDE KEY DOCUMENTS FOR THE CASE STUDIES DISCUSSED AS ATTACHMENTS SO THAT THOSE INTERESTED IN DIGGING DEEPER MAY DO SO WHILE SPARING THOSE WITH A MORE GENERAL INTEREST SOME OF THE TEDIOUS DETAIL.

I HAVE LABELED THE FIRST CAST STUDY ILLUSTRATING DIFFICULTIES OF ACQUIRING INFORMATION AND HAVING TOP MANAGEMENT ASSIGNMENTS CARRIED OUT THE EQUIVALENT UNIT COST (EUCO) CASE FOR WHICH KEY DOCUMENTS ARE INCLUDED AS ATCH 4.

ATTACHMENT 4-A IS A COPY OF A SO-CALLED "TALKING PAPER" PREPARED FOR GENERAL MARSH, THE COMMANDER OF THE AIR FORCE SYSTEMS COMMAND (AFSC), BY THE COMMAND'S COMPTROLLER, BRIGADIER GENERAL WILMA VAUGHT AND LIEUTENANT COLONEL STANLEY KAGAN, WHO WAS WORKING CLOSELY WITH MY OFFICE ON THE PROJECT. AS THE "TALKING PAPER" SHOWS, COLONEL KAGAN AND GENERAL VAUGHT CONCLUDED THAT MY RECOMMENDATIONS AND THE APPROVING DIRECTION OF ASSISTANT SECRETARY HALE WOULD BE BENEFICIAL AND URGED THAT THE PROJECT BE CARRIED OUT.

ON JUNE 1, 1982, MY ASSOCIATES AND I MET WITH GENERAL MARSH, WHO, THOUGH NOT AS ENTHUSIASTIC AS COLONEL KAGAN, AGREED THAT WE SHOULD GO FORWARD, BUT OBJECTED TO MY OFFICE WORKING DIRECTLY WITH THE CONTRACTORS. GENERAL MARSH SAID THAT HIS COMMAND WOULD GATHER THE NEEDED INFORMATION, STARTING WITH ALL THE HUGHES MISSILES. I DECIDED TO SEE IF GENERAL MARSH'S APPROACH WOULD WORK.

SINCE I HAD A JULY 15 REPORT DEADLINE, MR. PARFITT, WHO CAME TO WORK WITH ME OFFICIALLY ON JUNE 15, 1982, AND I ATTEMPTED TO FOLLOW THE PROGRESS OF AFSC'S COLLECTION OF THE EUCO EFFICIENCY DATA. AROUND JULY 1, WE BECAME CONCERNED WHEN WE COULD NOT DETECT ANY PROGRESS. AND REPORTED THIS FACT TO THE ASSISTANT SECRETARY'S OFFICE. BOTH ASSISTANT SECRETARY HALE AND HIS PRINCIPAL DEPUTY, MR. MITCHELL, SEEMED CONCERNED ABOUT THE LACK OF PROGRESS. ON JULY 2, 1982, MR. MITCHELL CONVENED A MEETING IN HIS OFFICE IN WHICH WE EXPLAINED AGAIN WHAT WE WERE TRYING TO DO AND DISTRIBUTED INFORMATION, INCLUDING THE EUCO FORMAT CONTAINED IN COLONEL KAGAN"S

RECOMMENDATION, TO AFSC, AIR STAFF AND AFSC REPRESENTATIVES. AT THAT MEETING, THE AIR STAFF AND AFSC REPRESENTATIVES SAID THEY WANTED THE INSTRUCTIONS PREVIOUSLY AGREED TO WITH GENERAL MARSH IN WRITING FROM THE ASSISTANT SECRETARY'S OFFICE. THIS WAS DONE ON JULY 9, 1982. A COPY OF THE MEMO IS INCLUDED AS ATTACHMENT 4-B.

MR. PARFITT AND I BECAME INCREASINGLY ANXIOUS AS OUR JULY 15 REPORT DEADLINE CAME AND WENT WITH NO RESPONSE FROM THE SYSTEM DESPITE EXTENSIVE FOLLOW-UPS. THE CHRONOLOGY OF FOLLOW-UPS BY MR. PARFITT DURING THIS PERIOD IS INCLUDED AS ATTACHMENT 4-C.

THEN, AFTER ADDITIONAL FOLLOW-UPS, MEETINGS, COMMUNICATIONS, AND SO ON, WE RECEIVED ON OCTOBER 29, 1982 A PARTIAL SUBMISSION CONSISTING OF AN UNSTRUCTURED STACK OF PAPERS FROM PLANT REPRESENTATIVES AND THE TWO COVER LETTERS INCLUDED AS ATTACHMENTS 4-D AND 4-E.

OUR AIR STAFF COMPTROLLER ACTION OFFICE SAID THEY DID NOT UNDERSTAND WHAT WE REALLY WANTED, PARTICULARLY BY WAY OF FORMAT FOR PRESENTATION, SO I REINSTRUCTED THEM ON NOVEMBER 15, 1982 AS SHOWN BY ATTACHMENT 4-F. JUST TO MAKE SURE THEY THESE COMMUNICATIONS WERE SPEEDED TO PEOPLE I BELIEVED TO BE ACTUALLY INVOLVED IN THE DATA COLLECTION PROCESS, I SENT BLIND COPIES OF MY NOVEMBER 15 MEMO TO GENERAL GERAN WHO HAD REPLACED GENERAL VAUGHT AS AFSC COMPTROLLER, TO GENERAL WEISS, TO MR. OMPAL CHAUHAN WHO HAD BY THEN COMPLETED THE HUGHES CAPABILITY STUDY PREVIOUSLY MENTIONED, AND TO MR. CHAUHAN'S BOSS, COLONEL JACK BRYAN.

ON JANUARY 7, 1983, MY ACTION MEMO TO THE AIR FORCE COMPTROLLER WAS ANSWERED BY A MEMO FROM GENERAL CONNOLLY, THE DIRECTOR, CONTRACT AND MANUFACTURING POLICY, IN THE AIR STAFF (ATTACHMENT 4-G). NOTHING HAD BEEN DONE BECAUSE, ACCORDING TO GENERAL CONNOLLY, AFTER CONSIDERABLE DISCUSSION AND RESEARCH, HE HAD NOT BEEN ABLE TO "DETERMINE WHO MADE THESE ARRANGEMENTS NOR WHAT FORMATS WERE SPECIFIED". NONE OF THE "DISCUSSIONS AND RESEARCH", SO FAR AS I COULD TELL, HAD INCLUDED CALLS TO OUR OFFICE, SO I ASKED MR. PARFITT TO LOOK INTO THE MATTER AND RECEIVED FROM HIM THE MEMO AND ATTACHMENTS INCLUDED AS ATTACHMENT 4-H.

NEXT, I GOT ON AN AIRPLANE AND WENT TO AFCMD IN ALBUQUERQUE, NEW MEXICO, WHERE, AFTER DISCUSSIONS WITH THE STAFF, I DISCOVERED THE AFCMD STAFF UNDERSTOOD IT VERY WELL WHAT WE WERE TRYING TO DO, WERE ENTHUSIASTIC ABOUT GOING AHEAD, AND WERE PREPARED TO DO SO. THEIR ONLY HOLD-UP WAS THAT THEY HAD NOT, AS OF JANUARY 17, 1983, RECEIVED ANY FORMAL "TASKING" TO CARRY OUT THE AGREEMENT MADE WITH GENERAL MARSH ON JUNE 1, 1982, AND REITERATED IN THE NUMEROUS DOCUMENTS PREVIOUSLY CITED. THEREFORE, I GAVE THEM A "TASKING" (ATTACHMENT 4-I).

COLONEL BRYAN, THE DIRECTOR OF MANUFACTURING OPERATIONS, REPORTED TO HIS BOSS, COLONEL ENGELBECK, THAT "INFORMATION REQUESTED BY MR. FITZGERALD IS SIGNIFICANT IN UNDERSTANDING COST TRENDS" AND "WE UNDERSTAND WHAT MR. FITZGERALD NEEDS AND CAN RESPOND IN TWO WEEKS FROM DATE OF FORMAL TASKING." COLONEL ENGELBECK WROTE TO COLONEL BRYAN- "SUGGEST YOU DO NOTHING UNTIL BEING TASKED VIA AFSC..." (ATTACHMENT 4-J). WHEN MY FOLLOW-UP CALLS REVEALED THAT COLONEL ENGELBECK HAD BLOCKED MY INSTRUCTIONS AND SOME TIME LATER, THE MESSAGE INCLUDED AS ATTACHMENT 4-K WAS FINALLY SENT TO AFSC ON MARCH 15 ASKING THAT THE INFORMATION I HAD REQUESTED BE SENT "THROUGH CHANNELS".

ON JULY 13, 1983, MORE THAN A YEAR AFTER WE HAD REQUESTED THE MATERIAL, WE FINALLY RECEIVED A PARTIAL SUBMISSION OF THE INFORMATION WE HAD REQUESTED, THOUGH STILL NOT IN THE FORM REQUESTED (ATTACHMENT 4-L).

I ALSO NOTED THAT THE INFORMATION I RECEIVED ON JULY 13, 1983 HAD "AS OF" DATES MOSTLY IN JULY OF 1982--SOME AS FAR BACK AS FEBRUARY 1982--WITH THE LATEST DATED OCTOBER 1982. SUCH FLOW TIMES CLEARLY DON'T DO FOR MANAGEMENT PURPOSES SO I OBTAINED COMMENTS THAT THE PACKAGE HAD ACCUMULATED ALONG THE WAY. THE DOCUMENTS I OBTAINED INCLUDED A MEMO (ATTACHMENT 4-M) WHICH SHOWED THAT THE PRODUCTION AND MANUFACTURING ORGANIZATION AT AFSC KNEW THEY WERE NOT BEING RESPONSIVE TO OUR REQUEST. FURTHERMORE, THEY INDICATED THAT AFCMD'S "GENERAL COMMENTS" SHOULD BE REMOVED FROM THE MATERIAL THEY HAD FORWARDED TO MY OFFICE. THESE COMMENTS (ATTACHMENT 4-N)

SAID, IN PART: "THIS EXERCISE HAS MADE US REALIZE WHAT TYPE DATA WE NEED FOR COST VISIBILITY" AND "IT IS SIMPLE AND PROVIDES INSTANT VISIBILITY INTO THE PROGRAM COST AND SCHEDULE" AND THE PROPHETIC UNDERSTATEMENT OF THE CENTURY, "WE WILL HAVE SOME OPPOSITION FROM THE CONTRACTORS IF WE USED THIS FORMAT".

I ALSO WROTE A LONG REPORT TO MY BOSS ON THE MATTER PROPOSING TO HIM THAT IN LIGHT OF OUR INABILITY TO MOVE THE SYSTEM THROUGH LOW-LEVEL PERSUASION, EDUCATION AND DIRECTION, WE SHOULD REQUEST THE SECRETARY OF THE AIR FORCE (FM) TO DIRECT THE CHIEF OF STAFF TO TO OBTAIN THE COOPERATION OF THE AIR STAFF AND AFSC IN ORDER TO OBTAIN NEEDED UP-TO-DATE EFFICIENCY INFORMATION ROUTINELY. I PREPARED A MEMORANDUM FOR THE ASSISTANT SECRETARY TO GIVE TO THE SECRETARY FOR HIS CONSIDERATION (ATTACHMENT 4-O). I HAVE NEVER LEARNED WHAT HAPPENED TO THIS PROPOSAL.

WHEN IT BECAME CLEAR THAT OUR APPEAL TO THE SECRETARY WOULD HAVE NO EFFECT, WE TRIED TO GET EQUIVALENT UNIT COST INFORMATION MADE A ROUTINE PART OF OUR MANAGEMENT SYSTEMS BY MODIFYING AN AIR FORCE REGULATION WHICH WAS IN THE PROCESS OF BEING CHANGED ANYWAY. I WILL NOT BORE THE SUBCOMMITTEE WITH FURTHER BUREAUCRATIC DETAIL, BUT THIS NEW APPROACH WAS APPROVED BY THE ASSISTANT SECRETARY OF THE AIR FORCE (FM) MONTHS AGO, BUT AS OF THIS WRITING IS STILL BEING "COORDINATED".

MEANWHILE, YOU AND YOUR STAFF, MR. CHAIRMAN, HAD BECOME INTERESTED IN QUANTIFYING OPPORTUNITIES TO SAVE MONEY IN OUR ACQUISITION PROGRAMS. MY ASSOCIATES AND I HAVE DISCUSSED THE MATTER WITH YOU AND YOUR STAFF ON SEVERAL OCCASIONS. IN ADDITION, AS YOU WILL RECALL, WE HAD DISCUSSIONS ON THE GENERAL SUBJECT WITH THE ASSISTANT SECRETARY (FM) AND THE SECRETARY OF THE AIR FORCE. ALSO, YOU REQUESTED AND RECEIVED A PRIVATE BRIEFING FORM MR. OMPAL CHAUHAN, THE INDUSTRIAL ENGINEER WHO HAD DONE MUCH OF THE PRODUCTIVE WORK FOR US IN THIS AREA.

ON JANUARY 31, 1984, I RECEIVED FROM MY BOSS, ASSISTANT SECRETARY RUSSELL D. HALE, A MEMORANDUM (ATTACHMENT 4-P) ASKING ME

TO WORK WITH THE SECRETARY'S STAFF GROUP TO GIVE THEM A QUICK COMPILATION OF AIR FORCE DOCUMENTS TO RESPOND TO YOUR HANDWRITTEN REQUEST TO THE SECRETARY OF THE AIR FORCE FOR TREND INFORMATION ON UNIT STANDARD HOUR CONTENT ON SAR SYSTEMS AND RELATED ACTUAL HOURS EXPENDED. I IMMEDIATELY TOOK, AMONG OTHER THINGS, A COPY OF MR. CHAUHAN'S SEPTEMBER 1983 BRIEFING ON WORK MEASUREMENT RESULTS TO THE SECRETARY'S STAFF GROUP AND SUGGESTED MR. CHAUHAN COULD UPDATE HIS DATA VERY QUICKLY AS A PARTIAL RESPONSE TO YOUR REQUEST, AND COULD PROVIDE MOST OF THE REMAINDER IN A MATTER OF A COUPLE OF WEEKS, IF PERMITTED TO DO SO.

THE NEXT THING I KNEW, THE MATTER HAD BEEN TRANSFERRED TO THE ASSISTANT FOR INDUSTRIAL RESOURCES IN ANOTHER ASSISTANT SECRETARY'S OFFICE. YOU FINALLY RECEIVED A SUBSTANTIVE RESPONSE TO YOUR JANUARY 31 REQUEST ON APRIL 27, 1984 (COVER LETTER IS INCLUDED AT ATTACHMENT 4-Q).

IT HAD BECOME CLEAR TO ME THAT THE EQUIVALENT COST INFORMATION, INCLUDING QUANTIFICATION OF EFFICIENCY LOSSES, WHICH WE OBTAINED ROUTINELY ON SOME PROGRAMS MORE THAN 20 YEARS AGO WAS NOT GOING TO BE BROUGHT BACK TO LIFE SOLELY THROUGH THE EFFORTS OF MY OFFICE. HAD IT NOT BEEN FOR YOU PERSISTENCE, MR. CHAIRMAN, AND THAT OF YOUR STAFF, I DOUBT VERY MUCH THAT WE WOULD HAVE AVAILABLE TO US THE ENLIGHTENING INFORMATION YOU NOW HAVE IN YOUR POSSESSION. TAKEN AT FACE VALUE, THIS INFORMATION SHOULD BE VIEWED AS AN OPPORTUNITY TO ACQUIRE MORE REAL DEFENSE READINESS WITHOUT BANKRUPTING THOSE TAXPAYERS WHO REMAIN SOLVENT. WE CAN SAVE BILLIONS.

I HAVE SUBJECTED THE SUBCOMMITTEE TO THIS LONG LITANY OF DIFFICULTIES TO ILLUSTRATE THAT MY OFFICE'S FIGHT TO SET UP A SYSTEM TO GATHER THIS INFORMATION HAS IMPLICATIONS FAR BEYOND THE USUAL BUREAUCRATIC BATTLES. AS THE AIR FORCE'S APRIL 27 LETTER TO YOU INDICATED, WE ARE QUITE LITERALLY DEALING WITH THE INDUSTRIAL HEALTH OF THE COUNTRY. WE ARE UNFORTUNATELY ALSO FACED WITH THE NECESSITY TO CHANGE A WAY OF LIFE IF WE ARE TO MAKE MORE THAN MARGINAL IMPROVEMENTS IN THE WAY WE ACQUIRE WEAPONS. THE INDUSTRY

PEOPLE ARUGING AGAINST OUR PROPOSED USE OF WORK MEASUREMENT (SHOULD TAKE) TIME STANDARDS ARE QUITE FRANK IN PROCLAIMING THAT THEY WILL OPPOSE AS STRENUOUSLY AS THEY CAN OUR ATTEMPTS TO BASE WHAT WE PAY FOR WEAPONS ON WHAT ITEMS SHOULD COST RATHER THAN EXTRAPOLATIONS OF WHAT THEY HAVE BEEN COSTING.

GORDON URQUART OF THE BOEING COMPANY DISCUSSED THIS MATTER WITH ME BY TELEPHONE IN DECEMBER OF 1982. MR. URQUART, THE CHAIRMAN OF THE MANUFACTURING EXECUTIVE COMMITTEE OF THE COUNCIL OF DEFENSE AND SPACE INDUSTRY ASSOCIATIONS (CODSIA), SAID THAT HIS ASSOCIATION WOULD CONTINUE TO OPPOSE THE USE OF "SHOULD-TAKE" STANDARDS FOR ESTIMATING COST. MR. URQUART SAID THE INDUSTRY WANTED TO USE "ACTUALS" (ACTUAL COST) AS IN THE PAST. "EVERYBODY IS TRAINED TO RELATE TO ACTUALS", HE SAID. THE WHOLE SYSTEM, HE SAID, IS "PRIMARILY ORIENTED TO ACTUAL COST." THAT'S TRUE, AND THAT'S THE PROBLEM. MY FORMER BOSS, ASSISTANT SECRETARY RUSSELL D HALE, WAS QUOTED IN THE NEW YORK TIMES ON NOVEMBER 13, 1983, AS SAYING THAT THE PRESENT PRACTICE OF EXTRAPOLATING HISTORICAL COST TO PRICE FUTURE WORK IS "CRAZY".

IT IS INDEED. THE ISSUE OF USING SHOULD-COST FIGURES AS OPPOSED TO EXTRAPOLATION OF TRENDS OF PAST ACTUALS, ESPECIALLY WITH REGARD TO CONTRACTOR'S RATES OF PAY, WAS ONE OF THE ITEMS I DEALT WITH IN MY PROPOSED MARCH 1 TESTIMONY TO THE GOVERNMENTAL AFFAIRS COMMITTEE.* THAT TESTIMONY'S OFFICIAL DOCUMENTATION SHOWED SOME OF THE BUREAUCRATIC FOOT-DRAGGING THAT HAD GONE ON TO OBFUSCATE, DELAY AND DEFLECT THE ORR-SPANTON INITIATIVES AIMED AT HEADING OFF INORDINATE INCREASES IN CONTRACTORS' RATES OF PAY. ACTUALLY, MATTERS WERE MUCH WORSE THAN I DEPICTED IN MY MARCH 1 PREPRAED STATEMENT. STRENOUS ATTEMPTS WERE MADE TO SLOW DOWN OR BLOCK THE FLOW OF INFORMATION WE NEEDED TO GET INTO THE EXECUTIVE PAY ISSUE.

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*THE SUBCOMMITTEE STAFF HAS BEEN FURNISHED SIX COPIES OF THIS STATEMENT. I WILL FURNISH ADDITIONAL COPIES IF NEEDED.

ATTACHMENT 5 IS A TRIP REPORT PREPARED BY MY ASSOCIATE, MR. PARFITT, RECORDING HIS AND MR. JAMES RIRIE'S TRIP TO PRATT AND WHITNEY, WEST PALM BEACH, FLORIDA, PLANT. IN HIS REPORT, MR. PARFITT REPORTED THAT AS A RESULT OF THE CONTROVERSIAL MARCH 1982 SPANTON REPORT ON LABOR RATES WHICH THIS SUBCOMMITTEE EXPLORED IN PART ON NOVEMBER 14, 1983, THE DEFENSE CONTRACT ADMINISTRATION SERVICE (DCAS) HAD BEEN REQUESTED TO DO A COMPLETE COMPENSATION REVIEW AT PRATT AND WHITNEY, WEST PALM BEACH. WE ASKED FOR AND THOUGH WE WERE PROMISED COPIES OF THE REPORT.

A MEMORANDUM ON THE ENTRANCE CONFERENCE FOR THE DCAS STUDY ON PRATT & WHITNEY COMPENSATION IS INCLUDED AS ATTACHMENT 6-A. THE MARCHING ORDERS WEREN'T EXACTLY A TAXPAYERS' DREAM, BUT AT LEAST IT WAS A START. SINCE WE WERE SO HEAVILY INVOLVED IN THE ISSUE AT THE TIME, MR. PARFITT HAD HOPED, AND INDEED EXPECTED, THAT HE WOULD BE KEPT INFORMED OF THE PROGRESS OF THE STUDY AS IT PROCEEDED. IT WAS NOT TO BE. WHEN WE LEARNED THROUGH UNOFFICIAL CHANNELS THAT THE DCAS STUDY HAD FINALLY BEEN RELEASED ON NOVEMBER 29, 1982, MR. PARFITT AND I BOTH MADE EFFORTS TO GET A COPY OF THE STUDY FOR OUR WORK. MR. PARFITT'S EFFORTS THROUGH DECEMBER 23, 1982 ARE SUMMARIZED IN HIS MEMO FOR RECORD OF DECEMBER 23, 1982 (ATTACHMENT 6-B).

AT ABOUT THAT TIME, A COPY OF WHAT APPEARED TO BE THE DCAS REPORT WE WERE SEEKING WAS LEFT IN MY MAILBOX IN AN UNMARKED ENVELOPE. HOWEVER, THE DOCUMENT LEFT IN MY MAILBOX DID NOT HAVE A TITLE PAGE SO I COULDN'T BE SURE THAT IS WAS WHAT WE WERE LOOKING FOR. IN FACT, MY BOSS' MILITARY ASSISTANT TOLD ME THAT IN CONVERSATION WITH THE AIR STAFF, THE CONTRACTING OFFICIALS HAD QUESTIONED THE AUTHENTICITY OF THE DOCUMENT. (THIS WAS IMPORTANT TO THE MILITARY ASSISTANT BECAUSE I HAD BET HIM THAT I WOULD RECEIVE THE DOCUMENT "OVER THE TRANSOM" BEFORE HE COULD GET IT OFFICIALLY). THE FOLLOW-UP CONTINUED. ATTACHMENT 6-C IS MR. PARFITT'S JANUARY 12, 1983 MEMO ON THE SAME FRUSTRATING SUBJECT.

LATER, MY BOSS' MILITARY ASSISTANT FINALLY GOT A COPY OF THE ELUSIVE COMPENSATION STUDY WITH THE COVER SHEET INCLUDED AS ATTACHMENT 6-D. COMPARISON SHOWED THAT OUR EARLIER "OVER THE TRANSOM" REPORT WAS AUTHENTIC.

THE ONE-PAGE COVER SHEET INCLUDES THE PASSAGES, "DCAS FOUND THAT THE SALARIES OF THE CHIEF EXECUTIVE AND THE TEN OTHER HIGHEST PAID EXECUTIVES EXCEEDED THE NORM FOR OTHER DEFENSE CONTRACTORS BY 40%," AND "THAT THE AVERAGE ANNUAL SALARY INCREASES FOR 1979-81 EXCEEDED DEPARTMENT OF LABOR AVERAGES FOR ENGINEERS FOR THE SAME YEARS."

AS RECORDED IN THE TESTIMONY I PREPARED FOR PRESENTATION TO THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE ON MARCH 1, 1984, MY BOSS, THE ASSISTANT SECRETARY OF THE AIR FORCE FOR FINANCIAL MANAGEMENT, AND HIS OTHER DEPUTIES HAVE MADE STRENUOUS EFFORTS OVER A PERIOD OF NEARLY TWO YEARS TO OBTAIN EXECUTIVE COMPENSATION FIGURES, ALONG WITH OTHER DATA, FROM THE DEFENSE CONTRACT AUDIT AGENCY (DCAA). AS MY MARCH 1 PREPARED TESTIMONY INDICATED, WE HAD BEEN UNSUCCESSFUL IN OBTAINING THE REQUESTED INFORMATION UNTIL THAT TIME.

WHILE PREPARING THIS STATEMENT, I CHECKED WITH OUR DEPUTY FOR AEROSPACE ECONOMIC ANALYSIS ABOUT THE STATUS OF THE LONG-AWAITED SUBMISSION FORM DCAA. HE TOLD ME THAT WE STILL HAD NOT RECEIVED THE REQUESTED INFORMATION.

IN MY MARCH 1 PREPARED TESTIMONY, I DEALT WITH TWO MAIN EXAMPLES OF LACK OF SUPPORT FROM DCAA IN GATHERING FACTS. ONE WAS THE ISSUE OF CONTRACTOR COMPENSATION RATES JUST DISCUSSED. THE SECOND DEALT WITH OUR ATTEMPTS TO CONTROL MISCHARGING OF CONTRACTOR EMPLOYEE TIME. IN THAT TESTIMONY, I DISCUSSED NOT ONLY OUR DIFFICULTIES IN GETTING ASSISTANCE FORM THE DCAA WITH THIS SERIOUS PROBLEM, WHICH IS APPARENTLY CONTINUING, I ALSO INCLUDED AN EXAMPLE, WHICH I HOPED WOULD BE EXPLORED FURTHER, OF PROBLEMS WHICH ARISE FORM UNCRITICAL ACCEPTANCE OF DCAA EXCUSES BY THE DOD INSPECTOR GENERAL (IG).

IN HIS TESTIMONY BEFORE THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE ON MARCH 1, 1984, THE DOD IG, MR. SHERICK, STATED THAT DCAA REFERRED 59 POTENTIAL LABOR MISCHARGING CASES TO DOD INVESTIGATORS IN THE LAST SIX MONTHS OF 1983. MR. SHERICK COMPARED THAT FIGURE WITH ONLY 46 SUCH CASES FOR THE ENTIRE PRECEDING SIX MONTHS. SINCE WE HAD BEEN UNSUCCESSFUL IN GAINING DCAA COOPERATION IN OUR ATTEMPTS TO SET UP WORKABLE CONTROLS AGAINST SUCH IRREGULARITIES, I ASKED MR. PARFITT TO CONTACT THE DOD IG'S OFFICE TO SEE IF WE COULD GET THE INFORMATION THE IG HAD TESTIFIED ABOUT ON LABOR MISCHARGING.

ACCORDING TO MR. PARFITT'S MEMO ON HIS INQUIRY (ATTACHMENT 7), THE DEPUTY IG, MR. DEREK VANDER SCHAAF, COULD NOT RESPOND TO OUR REQUEST FOR HELP, BUT HE SEEMED DOWNRIGHT UNSYMPATHETIC. ACCORDING TO MR. PARFITT, MR. VANDER SCHAAF ASKED "IS THIS FOR OFFICIAL AIR FORCE BUSINESS, OR IS IT JUST SOMETHING ERNIE FITZGERALD WANTS?"

MR. PARFITT REPORTED THAT HE REMINDED MR. VANDER SCHAAF THAT WE HAD A LONG-TIME PROJECT TO BRING ABOUT IMPROVED CONTROLS IN THIS AREA AND THAT WE HAD GOTTEN LITTLE OR NO HELP FROM THE DCAA IN THE PAST. MR. VANDER SCHAAF WAS THOROUGHLY FAMILIAR WITH THIS ALREADY. I HAVE DISCUSSED IT WITH HIM PERSONALLY ON SEVERAL OCCASIONS. TO OUR DISAPPOINTMENT, WE GOT NO HELP FORM THE IG. MR. PARFITT'S MEMO ON THE SUBJECT RECOUNTS:

> "DEREK (VANDER SCHAAF) MADE A FEW REMARKS ABOUT PAPERS SENT TO TO THIS OFFICE BEING PUBLISHED IN THE WASHINGTON TIMES AND ADDED SOME WORDS TO THE EFFECT THAT HIS FUNCTION WAS NOT TO MAKE NEWS FOR THE NEWSPAPERS. HE SAID THAT IF THE INFORMATION WAS WANTED FOR OFFICIAL PURPOSES THEN THE AIR FORCE COULD GET IT DIRECTLY FORM DCAA."

SO FAR AS I KNOW, WE HAVEN'T GIVEN ANY OF THE IG'S PAPERS TO THE WASHINGTON TIMES, AND MR. VANDER SCHAAF WAS INTIMATELY AWARE OF OUR EARLIER (AND ON-GOING) LACK OF SUCCESS IN GETTING MEANINGFUL

INFORMATION FROM DCAA. NEVERTHELESS, THAT WAS THE IG OFFICE'S FINAL DISPOSITION.

AS I INDICATED EARLIER IN MY STATEMENT, MY ASSOCIATES AND I ARE COMPILING A NUMBER OF CASE STUDIES DEALING WITH OBSTRUCTING, SLOWING-DOWN, OR CHANGING INFORMATION FLOWING TO OUR OFFICE. OUR FIELD TRIPS HAVE BEEN ESPECIALLY ENLIGHTENING, THOUGH FRUSTRATING, IN THIS REGARD.

ATTACHMENT 8 CONSISTS OF SEVERAL DOCUMENTS FROM OUR CASE STUDY ON OUR APRIL 1983 VISIT TO HUGHES AIRCRAFT'S OPERATION AT AIR FORCE PLANT 44. AS ATTACHMENT 8-A INDICATES, WE HAD TWO EXTREMELY IMPORTANT EXERCISES UNDERWAY AT HUGHES-TUCSON AT THAT TIME. ONE WAS THE VALIDATION OF HUGHES TIME STANDARDS ("SHOULD-TAKE" TIMES) REQUESTED BY SECRETARY ORR, AND THE OTHER WAS THE LONG-DELAYED SHOULD-COST STUDY WHICH HAD BEEN DIRECTED BY GENERAL DRIESSNACK IN THE SUMMER OF 1982. AS EXPLAINED IN ATCH 8-A, THE FIST EFFORT SHOULD HAVE BEEN AN IMPORTANT PART OF THE SECOND.

THROUGHOUT MOST OF THE TIME WE HAD SCHEDULED FOR OUR PLANT VISIT IN TUCSON, THE AIR FORCE PLANT REPRESENTATIVE (AFPR) AND HIS STAFF PERSISTED IN "NOT UNDERSTANDING" AND DELAYING GIVING US ACCESS TO DATA AND INFORMATION THAT WAS NECESSARY FOR OUR WORK AND FOR THE REVIEW TEAM THEN IN PLACE TO DO ITS JOB. FINALLY, AS RECOUNTED IN MY ASSOCIATE DR. AMLIE'S TRIP REPORT, THE AFPR ADMITTED THAT HE WAS UNDER ORDERS NOT TO GIVE US ANYTHING OF SUBSTANCE (ATCH 8-B). THIS ADMISSION CAME ONLY TOWARD THE END OF OUR SCHEDULED VISIT LATE ON THE MORNING OF APRIL 18, 1983.

I IMMEDIATELY CALLED THE COMMANDER OF AFCMD, THE AFPR'S BOSS, TO ASK WHY OUR WORK WAS BEING OBSTRUCTED IN THIS WAY. I ASKED WHY IF THESE WERE STANDING INSTRUCTIONS, WE WERE NOT TOLD BEFOREHAND SO WE WOULD NOT WASTE OUR TIME. THE AFCMD COMMANDER, BRIG GENERAL DON STUKEL, WAS QUITE CANDID IN TELLING ME THAT ORDERS HAD BEEN RELAYED THROUGH GENERALS DEVER, BOND, AND MARSH AT AFSC THAT ANYTHING GIVEN

TO ME HAD TO BE CLEARED IN ADVANCE WITH THE HEADQUARTERS. WE LATER LEARNED THAT THESE INSTRUCTIONS HAD BEEN RELAYED TO INDIVIDUALS IN THE AFPR'S OFFICE A DAY OR TWO BEFORE WE ARRIVED. STILL, WE WERE NOT TOLD, AND WERE ALLOWED TO THRASH AROUND AND WASTE OUR SCHEDULED VISIT TIME. WE FINALLY GOT A COUPLE OF MINOR DOCUMENTS AND CAME HOME.

BEFORE LEAVING TUCSON, I MADE ARRANGEMENTS WITH THE TIME STANDARDS REVIEW TEAM TO KEEP US INFORMED DIRECTLY ABOUT ANY FURTHER ATTEMPTED OBSTRUCTION OF THEIR EFFORTS -- IN PARTICULAR, I HAD ASKED THEM TO SEND ME BY ELECTROMAIL AN INTERIM REPORT ON THEIR DIFFICULTIES. THE NEXT MORNING, AFTER ARRIVING BACK IN THE PENTAGON, I CALLED TO CHECK ON THE STATUS OF MY ELECTROMAIL TRANSMISSION OF THE TEAM'S REPORT. AS ATCH 8-C RECORDS, THE TEAM MEMBERS SAID THAT THEY HAD BEEN REFUSED PERMISSION TO TRANSMIT THEIR REPORT BY THE ASSISTANT TO THE AFPR. AS ATCH 8-C ALSO RECORDS, I HAD TO UPSET MY BOSSES TO GET THE REPORT SENT FORWARD TO ME AT ALL, AND EVEN THEN IT COULD NOT COME TO ME DIRECTLY BUT HAD TO GO "THROUGH CHANNELS". AFTER AN UNPLEASANT FLAP, I GOT WHAT PURPORTED TO BE THE TEAM'S INTERIM REPORT. LATER, AFTER I GOT THE TEAM'S ORIGINAL INPUT, I FOUND THAT SIGNIFICANT INFORMATION HAD BEEN DELETED SOMEWHERE ALONG THE LINE. THE TEAM HAD BEEN TOLD NOT TO FOLLOW MY GUIDANCE, BUT RATHER TO REFER IT TO HIGHER HEADQUARTERS.

MY TWO ASSOCIATES, MR. PARFITT AND DR. AMLIE, WERE AT LEAST AS FRUSTRATED AS I WAS, AND ADDRESSED MEMORANDA OF PROTEST TO OUR BOSS. DR. AMILE WROTE IN HIS MEMO (ATCH 8-B) - "IF THE SYSTEM IS ALLOWED TO GET AWAY WITH THIS, ALL OF US, INCLUDING MR. ORR, ARE SIMPLY WASTING OUR TIME, BREATH, AND THE TAXPAYERS' MONEY."

MR. PARFITT'S MEMO ON THE SUBJECT (ATCH 8-D) RECOMMENDS THAT THE SECRETARY OF THE AIR FORCE WRITE TO THE CHIEF OF STAFF DIRECTING THAT ALL ELEMENTS OF THE AIR FORCE BE RESPONSIVE TO INFORMATION REQUIREMENTS OF THE SECRETARY, UNDER SECRETARY, ASSISTANT SECRETARIES, AND THE DEPUTIES.

WHEN MY TWO ASSOCIATES MET WITH OUR BOSS, MR. HALE, EVERYONE AGREED THAT MR. PARFITT'S PROPOSAL WOULD BE A GOOD WAY TO SOLVE THE PROBLEM, ESPECIALLY IF WE COULD DEPERSONALIZE THE ISSUE THROUGH A BLANKET DIRECTIVE. WE HAD OBSERVED THAT MOST PEOPLE WHO PUSHED HARD FOR FUNDAMENTAL CHANGE TENDED TO GENERATE THE SAME REACTION FROM THE PROCUREMENT COMMUNITY BUREAUCRACY: NAMELY, SLUGGISH TO NO RESPONSIVENESS TO GUIDANCE AND DIRECTION, AND A VIRTUAL SHUT DOWN OF FLOW OF MEANINGFUL INFORMATION TO THE PERSONS PUSHING FOR CHANGE.

MY TWO ASSOCIATES, MR. HALE, AND I LATER MET WITH SECRETARY ORR TO ENLIST HIS ASSISTANCE IN SOLVING OUR JOINT PROBLEMS. WE PREPARED THE MEMO INCLUDED AS ATCH 8-E FOR HIS SIGNATURE. WE DON'T KNOW WHAT HAPPENED TO IT.

AFTER OUR MEETING WITH MR. ORR, WE HOPED THAT THINGS WOULD CHANGE. THEY DID. THEY GOT WORSE. RATHER THAN HAVING INFORMATION FROM THE HUGHES SITUATION FLOW MORE FREELY TO US, WE WERE UNABLE TO GET ANY DETAILS ON SPECIFICS OF THE SHOULD-COST STUDY BEING CONDUCTED AT HUGHES, DESPITE THE FACT THAT RESPONSIBILITY FOR APPLICATION OF THE "SHOULD-COST" APPROACH WAS SPECIFICALLY SPELLED OUT IN MY LEGAL AGREEMENT WITH THE AIR FORCE (ATCH 1, EX 1, PARA 4).

WE WERE BRIEFED ON THE SHOULD-COST TEAMS' FINDINGS ONLY AFTER THE CONTRACT REFLECTING RESULTS OF THE SO-CALLED SHOULD-COST REVIEW HAD BEEN NEGOTIATED WITH HUGHES. TO SAY THE LEAST, THE RESULTS WERE DISAPPOINTING, BUT IT WAS TOO LATE TO DO ANYTHING ABOUT THEM BY THE TIME WE WERE TOLD. EVEN THOUGH HUGHES WAS BRIEFED ON THE SHOULD-COST TEAMS' FINDINGS ON MAY 26, 1983, AND NEGOTIATIONS WENT ON THROUGH THE SUMMER, WE WERE NOT BRIEFED UNTIL JANUARY OF 1984.

SHORTLY AFTER OUR APRIL VISIT TO HUGHES AND OUR SUBSEQUENT, SOMEWHAT REASSURING MEETING WITH MR. ORR, MR. PARFITT, MR. RIRIE, AND I VISITED THE AFPRO AT PRATT & WHITNEY'S WEST PALM BEACH, FLORIDA PLANT. OUR PURPOSE, IN ADDITION TO EXPLORING COST REDUCTION POSSIBILITIES GENERALLY, INCLUDED FOLLOW-UP WORK WHICH

WAS SUPPOSED TO BE PERFORMED BY THE AFPRO AS A RESULT OF MR. RIRIE AND MR. PARFITT'S TRIP IN JULY OF 1982. AMONG OTHER THINGS, MR. RIRIE AND MR. PARFITT THOUGHT THE AFPRO HAD AGREED TO UNDERTAKE A REVIEW OF WHETHER THE P&W ENGINEERS WERE UNDER-UTILIZED OR OVERPAID.

AS MR. PARFITT RECORDED IN HIS TRIP REPORT OF THIS VISIT (ATCH 9), THE ACTING AFPR TOLD US RIGHT OFF THE BAT THAT HE WAS UNDER ORDERS TO PROVIDE NO DOCUMENTATION OF ANY KIND DIRECTLY TO US. ANYTHING GIVEN TO US WOULD HAVE TO GO "THROUGH CHANNELS." WE THANKED THE ACTING AFPR FOR HIS FRANKNESS. I CALLED THE SECRETARY OF THE AIR FORCE'S OFFICE TO GET THE OBSTACLE REMOVED. THE NEXT DAY WE FINALLY GOT SOME OF WHAT WE WERE LOOKING FOR AND, AGAIN, IT WAS EASY TO SEE WHY THE LOCAL AFPRO PEOPLE DIDN'T WANT US TO SEE THEIR DOCUMENTS. WE LEARNED THAT THE REVIEW OF P&W ENGINEER UTILIZATION AND PAY HAD BEEN DROPPED THE PREVIOUS OCTOBER AFTER SOME PRELIMINARY SOUL-SEARCHING. THIS WAS THE FIRST TIME THAT MR. RIRIE AND MR. PARFITT LEARNED OF THE ABANDONMENT OF THE PREVIOUSLY AGREED-TO REVIEW. RATIONALIZATIONS RECORDED BY THE AFPRO ENGINEERING SECTION (AFPRO/EN) WERE INSTRUCTIVE.

"1) AFPRO/EN FEELS ANY INVOLVEMENT OF THEIR PART WOULD JEOPARDIZE THE RAPPORT THEY'VE DEVELOPED WITH GPD ENGINEERS AND NEED TO ACCOMPLISH THEIR JOB.

"2) AFPRO EN FEELS THAT THEY ARE INCAPABLE OF EVALUATING ANYONE ABOVE THEIR EQUIVALENT JOB LEVEL.

"3) AFPRO TM HAS NOT DEFINED THE PROPOSED SCOPE OF THE REVIEW, I.E., DIRECT SALARY, DIRECT SRS, ALL INDIRECT.

"4) AFPRO TMO (SHEPPARD) DOESN'T WANT TO APPROVE A MINI-CMR AS A PRELUDE TO A FULL CMR.

"5) AFPRO TMO (LINK) HASN'T FOUND CARD PLAYERS IN THE CAFETERIA TO BE A SUFFICIENT NEXUS FOR TRYING TO IDENTIFY INAPPROPRIATELY UTILIZED ENGINEERS.

"6) AFPRO EN IS ADAMANT IN THEIR BELIEF THAT NO GPD ENGINEERS ARE UNDER-UTILIZED OR OVERPAID."

ON APRIL 24-27, 1983, DR. AMILE AND I VISITED THE OKLAHOMA CITY AIR LOGISTICS CENTER (ALC) AS PART OF OUR EFFORTS TO REDUCE AND CONTROL THE COST OF SPARE PARTS. THE ALC IS PART OF THE AF LOGISTICS COMMAND, NOT PART OF THE AF SYSTEMS COMMAND IN WHICH THE AFPRO'S PREVIOUSLY DISCUSSED ARE LODGED. HOWEVER, EVEN THOUGH MOST OF THE INDIVIDUALS WE VISITED AT OKLAHOMA CITY ALC HAD A GOOD ATTITUDE TOWARD THEIR WORK AND WERE FAIRLY OPEN WITH US, THEY, TOO, WERE UNDER INSTRUCTIONS TO GIVE US NOTHING DIRECTLY, AN INSTRUCTION THEY DID NOT FOLLOW TO THE LETTER. HOWEVER, ON POINTS CONSIDERED PARTICULARLY "SENSITIVE" TO CONTRACTOR INTERESTS, THEY HONORED THEIR OFFICIAL INSTRUCTIONS TO GIVE US NOTHING DIRECTLY.

AMONG THE OTHER THINGS WE WERE TOLD BY THE AIR FORCE EMPLOYEES AT OKLAHOMA CITY WAS THAT A NUMBER OF THEIR LOWER TIER SUPPLIERS WERE REPORTING THAT THEY WERE RECEIVING LETTERS FROM PRIME SUPPLIERS TO THE AIR FORCE WHICH THEY INTERPRETED AS THREATENING TO THEM IF THEY WERE TO RESPOND DIRECTLY TO AIR FORCE SPARE PARTS SOLICITATION WITHOUT GOING THROUGH THEIR PRIMES. WE ASKED FOR SOME SAMPLES OF SUCH CORRESPONDENCE WHICH OUR FELLOW AIR FORCE EMPLOYEES READILY AGREED TO SEND US, THOUGH THEY INSISTED THAT THE MATTER HAD TO GO "THROUGH CHANNELS". FINALLY, AFTER NUMEROUS INQUIRIES AND FOLLOW-UP CALLS, I RECEIVED TWO SAMPLE LETTERS ON JULY 12, 1983 - ALMOST THREE MONTHS AFTER INITIALLY REQUESTING THEM.

I PROTESTED THIS LONG DELAY TO MY FRONT OFFICE AND URGED THEM TO FIND OUT WHERE THE MATERIAL HAD BEEN ALL THIS TIME. THE PACKAGE INCLUDED AS ATCH 10 RECORDS THE LONG JOURNEY OF THE TWO LETTERS. TO ME, THIS PACKAGE REPRESENTED AN ABSOLUTE HORROR STORY OF BUREAUCRATIC FOOT-DRAGGING, PETTINESS, AND MAKE-WORK. IT WAS QUITE OBVIOUS THAT THE MILITARY AND CIVILIAN BUREAUCRATS HAD LITTLE TO DO IF THEY COULD SPEND SUCH A HUGE AMOUNT OF TIME IN SUCH A POINTLESS EFFORT. APPARENTLY, THIS HORRIBLE EXAMPLE CONVINCED THE MILITARY BUREAUCRACY THAT IMPROVEMENTS WERE NEEDED. MEMORANDA WERE DISPATCHED ASKING THE SYSTEM TO BE MORE RESPONSIVE, BUT KEEPING IN

PLACE THE "THROUGH CHANNELS" REQUIREMENT WHICH, SO FAR AS I CAN TELL, IN MOST INSTANCES ADDS NOTHING OF VALUE TO THE INFORMATION BEING TRANSMITTED, COSTS LOTS OF MONEY AND TIME AND, AS PREVIOUSLY NOTED, OFTEN STOPS, DELAYS, DEFLECTS, AND ALTERS IMPORTANT INFORMATION.

MY ASSOCIATES AND I HAVE FOUND THAT IT IS SOMETIMES EASIER TO GET INFORMATION FROM THE CONTRACTORS THAN TO PULL THE SAME INFORMATION THROUGH THE SYSTEM. AN EXAMPLE ON WHICH I WILL SPARE YOU THE DETAILS IS THE DATA WHICH MY ASSOCIATE, MR. PARFITT, USED IN PREPARING THE SO-CALLED PARFITT REPORT ON P&W SPARE PARTS. IN MY OPINION, THE PARFITT REPORT WAS ONE OF THE MOST IMPORTANT MILESTONES IN OUR ON-GOING ATTEMPTS TO CONTROL SPARE PARTS PRICES. I BELIEVE THAT WE WILL NOT BRING THOSE PRICES UNDER CONTROL UNTIL WE DEAL EFFECTIVELY WITH THE MOST FUNDAMENTAL ISSUES RAISED IN THE PARFITT REPORT. SO FAR, THIS HAS NOT BEEN DONE.

MR. PARFITT IDENTIFIED THE INFORMATION NEEDED FOR HIS REPORT IN A VISIT TO P&W, EAST HARTFORD, CONNECTICUT, ON OCT 29, 1982. P&W READILY AGREED TO GIVE HIM THE NEEDED INFORMATION AND PREPARED IT IN A REASONABLY TIMELY MANNER FOR SUBMISSION DIRECTLY TO MR. PARFITT. HOWEVER, P&W WAS TOLD BY OUR AFPRO THAT THEY COULD NOT SEND THE DATA DIRECTLY TO MR. PARFITT. INSTEAD, P&W HAD TO GIVE THE LETTER ADDRESSED TO MR. PARFITT TO THE AFPRO WHO, IN DUE COURSE, WOULD SEND IT TO AFCMD IN ALBUQUERQUE, NEW MEXICO, WHO THEN, WOULD FORWARD IT TO AFSC HQ AT ANDREWS AFB IN MARYLAND, WHERE, IF THOSE MILITARY OFFICIAL AGREED, IT MIGHT BE SENT TO THE AIR STAFF IN THE PENTAGON, WHO, AFTER PROPER "STAFFING" AND "COORDINATION" MIGHT THEN SEND IT TO THE ASST SECRETARY FOR ACQUISITION & LOGISTICS WHO, IF HE THOUGH PROPER, MIGHT FINALLY SEND MR. PARFITT'S MAIL TO HIM.

UNFORTUNATELY, ALMOST A MONTH AFTER MR. PARFITT'S VISIT TO P&W, HIS MAIL WAS STILL STUCK IN THE OFFICE OF BGEN BERNARD WEISS, THEN DEPUTY CHIEF OF STAFF, CONTRACTING & MANUFACTURING, AFSC HQ, ANDREWS AFB.

I CALLED GEN WEISS ON NOVEMBER 24, 1982 TO ASK HIS HELP IN GETTING MR. PARFITT'S MAIL TO HIM. GEN WEISS TOLD ME THAT HE HAD THE INFORMATION FROM P&W ON HIS DESK AND THAT HE WAS "STUDYING" IT. WHEN I ASKED THAT HE SEND US AN INFO COPY WHILE HE COMPLETED HIS STUDY, GEN WEISS BECAME VERY ANNOYED AND SAID THAT THE SYSTEMS COMMAND MIGHT OR MIGHT NOT SEND THE INFORMATION FORWARD. HE SAID IT MIGHT PROVE TO BE FALSE OR MISLEADING. HE ADDED THAT OUR DIRECT CONTACTS WITH THE FIELD, INCLUDING CONTRACTORS, WERE DISRUPTIVE AND IMPROPER. HE SAID THAT MY JOB WAS TO SET POLICY. I TRIED TO EXPLAIN TO HIM THAT I DID MORE THAN SET POLICY, BUT IN ANY EVENT WOULD NEED INFORMATION TO SET IT PROPERLY. GEN WEISS FINALLY TOLD ME THAT WE WOULD HAVE TO TAKE THE MATTER UP WITH HIGHER AUTHORITIES. WE DID, AND AFTER A PARTICULARLY UNPLEASANT CONFRONTATION, I FINALLY GOT AN INFORMATION COPY THROUGH MY DIRECT EFFORTS AND THOSE OF OUR FRONT OFFICE.

THE ASST SECRETARY FOR ACQUISITION & LOGISTICS APPARENTLY WAS NOT TOLD THAT WE HAD ALREADY GOTTEN AN INFORMATION COPY OF MR. PARFITT'S MAIL BECAUSE ON DECEMBER 23RD, THE ASST SECRETARY'S ASSISTANT FOR CONTRACTING & LOGISTICS MANAGEMENT WROTE ME THAT THEY HAD DECIDED THAT WE SHOULDN'T RECEIVE OUR MAIL. FORTUNATELY, WE ALREADY HAD IT, AND MR. PARFITT WAS ABLE TO COMPLETE HIS REPORT. I HOPE WE WILL EVENTUALLY DEAL WITH THE VERY IMPORTANT ISSUES IT RAISES.

ANOTHER CASE WHERE WE WERE SUCCESSFUL IN GETTING USEFUL INFORMATION DIRECTLY FROM A CONTRACTOR WAS DURING MR. RIRIE AND DR. AMLIE'S VISIT TO HUGHES AIRCRAFT, CANOGA PARK, CALIFORNIA, DIVISION IN JANUARY OF THIS YEAR. BY GOING DIRECTLY TO THE CONTRACTOR'S RECORDS, MR. RIRIE AND DR. AMLIE WERE SUCCESSFUL IN GETTING INFORMATION ABOUT ONE OF OUR MAJOR PROGRAMS OF SUFFICIENT IMPORTANCE AND IN TIME TO PERMIT OUR TOP MANAGEMENT TO MAKE AN IMPORTANT DECISION TO DELAY THE PROGRAM UNTIL IDENTIFIED PROBLEMS COULD BE SOLVED. HOWEVER, THE AFPRO AT THIS LOCATION HAD NOT PREVIOUSLY THOUGHT TO OBTAIN THE NEEDED INFORMATION, AND OUR ACTIVITIES APPARENTLY ROUSED THE AFPRO TO SUCH AN EXTENT THAT HE VERY UNWISELY ENGAGED DR. AMLIE IN A MEMO-WRITING CONTEST. I HAVE INCLUDED THE AFPRO MEMO (ATTACHMENT 11-A), DR. AMLIE'S RESPONSE (ATTACHMENT 11-B), AND MR.

PARFITT'S RESPONSE TO THE AFPRO (ATTACHMENT 11-C) BECAUSE I BELIEVE THAT THE AFPRO, IN HIS ANGER, BLURTED OUT WHAT MR. PARFITT CALLED "THE UNDERSTOOD, DE FACTO POLICY OF THE AIR FORCE PROCUREMENT COMMUNITY" (ATTACHMENT 11-C), REGARDING GENERAL DISCLOSURE OF UNCLASSIFIED INFORMATION IMPORTANT TO GOVERNMENT MANAGERS AND THE TAXPAYERS. AS ATTACHMENT 11-C SHOWS, MR. PARFITT THANKED THE AFPRO FOR HIS FRANK COMMENTS AND ASKED THAT HE COMMUNICATE FURTHER WITH US. TO DATE, WE HAVE NOT HEARD FROM HIM. THIS IS TOO BAD BECAUSE I BELIEVE A FRANK DISCUSSION OF INFORMATION FLOW AND POLICY FOR HANDLING IT WOULD BE HEALTHY.

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THE TEXT OF MY PREPARED STATEMENT PRIOR TO THIS POINT REFLECTS THE CONSENSUS OF ALL AIR FORCE ELEMENTS WHO CHOSE TO SEND REPRESENTATIVES TO AN EDITORIAL CONFERENCE ON MY ORIGINALLY PREPARED MATERIAL. I CALLED THIS CONFERENCE AFTER THE DEADLINE HAD PASSED FOR SUBMITTING COMMENTS TO MY ORIGINAL DRAFT I HAD PRESENTED WITHOUT MY HAVING RECEIVED ANY COMMENTS.

OF THOSE ELEMENTS OF THE AIR FORCE HQ WHO CHOSE TO SEND REPRESENTATIVES TO THE EDITORIAL MEETING, TWO DECLINED TO MAKE ANY SUBSTANTIVE COMMENTS IN THE COURSE OF THE MEETING. ONE OF THE TWO PROVIDED BRIEF WRITTEN COMMENTS. THE OTHER PROVIDED WRITTEN COMMENTS AFTERWARDS. IN ORDER TO PREVENT ANY ALLEGATION OF LACK OF "BALANCE" IN THE STATEMENT, I HAVE INCLUDED AS ATTACHMENT 12 ALL THE WRITTEN COMMENTS I RECEIVED ON MY DRAFT STATEMENT.

THE SUBCOMMITTEE ASKED THAT I PRESENT CASE INFORMATION ON THE RELIABILITY AND AVAILABILITY OF AGENCY INFORMATION BASED ON MY OFFICE'S RECENT EXPERIENCES. I HOPE THE INFORMATION I HAVE COMPILED WILL BE USEFUL IN YOUR DELIBERATIONS AND I WISH TO OFFER SEVERAL RECOMMENDATIONS FOR YOUR CONSIDERATION.

(1) CREATE A CLIMATE IN WHICH GOOD STEWARDS OF THE PUBLIC'S MONEY, INCLUDING COST-CUTTERS, CAN PROSPER. SECRETARY ORR'S AWARDS OF BONUSES TO AIR FORCE EMPLOYEES WHO FOUND EXAMPLES OF

UNCONSCIONABLY LARGE PRICES FOR SMALL PARTS WAS A GOOD START IN THIS DIRECTION. HOWEVER, IF WE FAIL TO ATTACK AND SOLVE THE BASIC UNDERLYING PROBLEMS GIVING RISE TO OVER-PRICING GENERALLY, WE RUN THE RISK OF HAVING SKEPTICAL TAXPAYERS VIEW OUR GOOD START AS A PUBLIC RELATIONS DIVERSION.

I RECALL THAT WHEN THE CHAIRMAN OF THIS SUBCOMMITTEE WAS BRIEFED ON THE AIR FORCE MANAGEMENT ASSISTANCE GROUP (AFMAG) PROJECT TO IMPROVE SPARE PARTS PRICING, THE FACT EMERGED THAT THE PROJECT DID NOT INCLUDE A DIRECT ATTEMPT TO SOLVE WHAT THE BRIEFER REFERRED TO AS THE "PRODUCTIVITY PROBLEM". OUR OFFICE BELIEVES THIS IS A GENERAL PROBLEM, COMMON TO ALL THE LARGE CONTRACTORS WE KNOW, EVEN THOUGH THE EXTENT VARIES IN DEGREE AND KIND FROM ONE CONTRACTOR TO ANOTHER. WE BELIEVE THE SPARE PARTS OVER-PRICING IS A REFLECTION OF OVER-PRICING GENERALLY.

ATTACHMENT 13, A MEMORANDUM TO ME FROM MY ASSOCIATE, DR. AMLIE, INCLUDED THE FOLLOWING STATEMENT REGARDING THE SPARE PARTS PRICING SCANDAL:

> "IT SHOULD BE NOTED THAT THE COSTS DESCRIBED ABOVE REPRESENT A PROBLEM ONLY WHEN THEY COME OUT IN CONGRESSIONAL HEARINGS AND IN THE MEDIA AND CAUSE A PUBLIC RELATIONS/IMAGE PROBLEM. HOWEVER, THESE SOON BLOW OVER. OTHER THAN THAT, WE HAVE PLENTY OF MONEY. THE TAXPAYERS MAY HAVE A PROBLEM, BUT WE DON'T."

I BELIEVE UNDUE FOCUS ON THE PUBLIC RELATIONS ASPECTS OF SCANDALOUS PRICING DISCLOSURES IS THE LARGEST SINGLE CAUSE OF THE INFORMATION RELIABILITY AND FLOW PROBLEMS WE HAVE DISCUSSED. WE HAVE BEGGED AND PLEADED WITH OUT PROCUREMENT BUREAUCRACY NOT TO GO INTO A "DEFENSIVE CROUCH" WHEN WE FOUND OPPORTUNITIES AND DEVISED MEANS TO SAVE MONEY. WE'RE STILL WORKING ON THAT.

AS PREVIOUSLY NOTED, THE CORRESPONDENCE INCLUDED AS ATTACHMENT 11 SURFACES THE ISSUE OF FULL DISCLOSURE OF STEWARDSHIP PROBLEMS. THE ISSUE DESERVES FURTHER EXPLORATION. THE ORIGINATOR OF THIS PACKET OF CORRESPONDENCE THOUGHT SUCH DISCLOSURES WERE "A

DISSERVICE TO THE AIR FORCE AND THE NATION". IN ACTUALITY, IT IS JUST THE OPPOSITE. THE SHOCKINGLY HIGH PRICES, OFTEN FOR SUBSTANDARD HARDWARE, WHICH WE KEEP DISCOVERING ARE OBVIOUSLY A CRUEL BURDEN ON OUR COUNTRY"S TAXPAYERS AND SAVERS. I BELIEVE THAT COVERING-UP, MINIMIZING, AND FAILING TO CORRECT THESE PROBLEMS IS ALSO A DISSERVICE TO OUR OPERATING MILITARY. BAD MANAGEMENT HAS SHOT DOWN MORE AIRPLANES, SUNK MORE SHIPS, AND IMMOBILIZED MORE SOLDIERS THAN ALL OUR ENEMIES IN HISTORY PUT TOGETHER. SINCE THE MID TO LATE 70'S, WE IN THE PENTAGON HAVE BEEN OPERATING ALMOST AS THOUGH RESOURCES WERE LIMITLESS. THIS MUST CHANGE. IF WE ARE TO MANAGE THIS CHANGE EFFECTIVELY, WE MUST DO SO ON THE BASIS OF TIMELY, RELIABLE INFORMATION, FREELY AVAILABLE WITHIN GENUINE SECURITY LIMITS.

WE NEED TO SEEK OUT AND CORRECT THE MISCONCEPTIONS WHICH LEAD SO MANY OF OUR OFFICIALS TO LEAN TOWARD NON-DISCLOSURES AS A "SOLUTION" TO SERIOUS PROBLEMS. THERE IS A WIDE-SPREAD BELIEF WITHIN THE DEPARTMENT OF DEFENSE THAT WE HAVE AN OBLIGATION NOT TO "EMBARRASS" THE DOD BY DISCLOSING SUCH THINGS AS EXCESSIVE PRICES BECAUSE SUCH DISCLOSURES MIGHT HAVE AN IMPACT ON THE DEFENSE BUDGET.

IN MY OPINION, THE PRESENT POOR CLIMATE FOR WOULD-BE COST-CUTTERS CAN BE CHANGED ONLY IF OUR PENTAGON MANAGERS ARE FACED WITH ABSOLUTE NECESSITY TO DO MORE WITH LESS. AT PRESENT, WOULD-BE COST-CUTTERS, NOT HIGH COSTS, ARE THE PROBLEM IN THE EYES OF MANY PENTAGON MANAGERS. I BELIEVE OUR MANAGERS MUST BE GIVEN DRAMATICALLY LOWER GOALS, ACHIEVEMENT OF WHICH WILL DETERMINE THEIR CAREER PROCESS, FOR REDUCTION OF THE UNIT COST OF DEFENSE. IF SEVERE BUDGETS CUTS ARE NECESSARY TO BRING THIS ABOUT, I BELIEVE WE SHOULD TAKE THEM.

(2) REDUCE THE SIZE AND IMPROVE THE QUALITY OF THE ACQUISITION BUREAUCRACY. EXTRACTS FROM OUR CASE STUDIES, INCLUDING THOSE PRESENTED HERE, ILLUSTRATE THE ADVERSE EFFECTS OF OVERLY LARGE, MULTI-LAYERED BUREAUCRATIC ORGANIZATIONS WHO OFTEN DO NOT EVEN UNDERSTAND THE BASIC MANAGEMENT CONTROLS THEY ARE DEALING WITH.

AS NOTED IN MY TESTIMONY ON OUR EQUIVALENT UNIT COST PROCEDURES, OUR WORKING LEVEL PEOPLE UNDERSTOOD VERY WELL THE VALUE OF OUR PROPOSALS, WANTED TO ADOPT THEM RIGHT AWAY, BUT WERE BLOCKED BY THEIR SUPERIORS.

TOO MANY OF OUR PROCEDURES AND TOO MUCH OF OUR ACTIVITY IN THE ACQUISITION MANAGEMENT BUSINESS IS AIMED AT COST AND BUDGET JUSTIFICATION INSTEAD OF COST REDUCTION. TOO MANY OF THE ADMINISTRATORS IN THIS END OF OUR BUSINESS INSTINCTIVELY REACT TO PROTECT BUDGETS AND THE INTEREST OF BIG CONTRACTORS IN SITUATIONS SUCH AS I HAVE DESCRIBED. IN MY EXPERIENCE, THE BIG CONTRACTORS ARE PERFECTLY CAPABLE OF TAKING CARE OF THEMSELVES. WE DO NOT NEED MOST OF THE HUGE DROVES OF AUDITORS AND ADMINISTRATORS WHO SPEND SO MUCH OF THEIR TIME AT PRESENT JUSTIFYING WHATEVER THE BIG CONTRACTORS HAVE SPENT OR WANT TO SPEND. INDEED, THESE PEOPLE ARE IMPEDIMENTS TO GOOD STEWARDSHIP.

THE "CRAZY" ACTUAL-COST-ARE-REASONABLE-COST PROPENSITIES NEED TO BE ELIMINATED, AND I HAVE RELUCTANTLY CONCLUDED THAT THE FASTEST WAY TO DO THIS WOULD BE THROUGH SELECTIVE REDUCTIONS-IN-FORCE (RIF) WITHIN THE PRESENT ACQUISITION BUREAUCRACY. WE SHOULD KEEP CUTTING STAFF UNTIL GOOD STEWARDSHIP SYMPTOMS DOMINATE. THEN, IF ACTUAL, ACHIEVED COST REDUCTIONS WARRANT, WE COULD ALLOW A GRADUAL REGROWTH.

REDUCTION OF THE SIZE OF THE PRESENT BUREAUCRACY WILL IN AND OF ITSELF SOLVE MANY OF THE PROBLEMS OF INFORMATION FLOW DOCUMENTED IN OUR CASE STUDIES. MUCH OF THE "STAFFING" AND "COORDINATION" ACTIVITY WHICH PRESENTLY GOES ON IS MAKE-WORK. OFTEN-TIMES, THE PEOPLE VOTING ON INFORMATION SUBMITTED FOR STAFFING AND COORDINATION HAVE NO REAL UNDERSTANDING OF THE SUBJECT MATTER AND, INDEED, AS ILLUSTRATED STRIKINGLY IN THE CASE DOCUMENTED IN ATTACHMENT 10, AREN'T EVEN DEALING WITH FACTUAL SUBSTANCE. IN THAT CASE, AS IN THE CASE OF THE PARFITT REPORT DATA, THE REAL QUESTION WAS WHETHER THE INFORMATION SHOULD BE GIVEN TO OUR OFFICE. A GOOD, HEALTHY RIF WOULD CURE THIS NONSENSE.

(3) STRENGTHEN THE PRESENT STATUTES AIMED AT DISCOURAGING FALSIFICATION, CONCEALMENT, COVER-UP OF MATERIAL FACTS OR IMPEDING,

UNREASONABLY SLOWING-DOWN, OR MATERIALLY ALTERING FACTS. IN PARTICULAR, I SUGGEST THAT 10 USC 2276 BE CLARIFIED AS NECESSARY AND BROADENED TO MAKE IT APPLICABLE TO ALL FEDERAL GOVERNMENT CONTRACTING.

IN THIS CONNECTION, I SUGGEST THAT THE CASE OF GEORGE SPANTON, FORMERLY RESIDENT DCAA AUDITOR AT PRATT & WHITNEY'S WEST PALM BEACH PLANT, BE EXAMINED CLOSELY. I BELIEVE THAT SUCH A REEXAMINATION WOULD SHOW SPECIFICALLY WHERE THE STATUES MIGHT NEED STRENGTHENING.

(4) PROVIDE REAL REMEDIES FOR GOVERNMENT AND CONTRACTOR EMPLOYEES WHO GET IN TROUBLE THROUGH INVOLVEMENT AND DISCLOSURE OF UNCLASSIFIED FACTS. I HAVE BEEN TAUGHT THAT IN LAW WHERE THERE IS A RIGHT, THERE IS A REMEDY. WE LOUDLY PROCLAIM THE RIGHT OF ALL AMERICANS TO FREE SPEECH, WHILE SYSTEMATICALLY STRIPPING AWAY REMEDIES WHICH MIGHT MAKE THAT RIGHT MEANINGFUL, ESPECIALLY FOR FEDERAL GOVERNMENT MERIT SYSTEM. AGAIN, THE SPANTON CASE IS AN EXCELLENT CURRENT ONE TO FOLLOW IN THIS REGARD.

(5) FOLLOW UP. IN ADDITION TO THE PERSONAL COST INVOLVED, A MAJOR REASON FEDERAL GOVERNMENT EMPLOYEES ARE RELUCTANT TO REVEAL EMBARRASSING FACTS IS THAT IT GENERALLY DOES NOT GOOD. I HAVE SEEN TOO MANY CASES OF WELL-MEANING GOVERNMENT BUREAUCRATS "SETTING THEIR HAIR AFIRE", HAVING THE NEWS MEDIA AND THE CONGRESS GIVE THE MATTER BIG PLAY, THEN AFTER THE SENSATIONALISM HAS DIED DOWN, FIND THAT NOTHING HAS CHANGED.

IN DEALING WITH YOUR SUBCOMMITTEE AND ITS STAFF, I HAVE FOUND THEM UNUSUALLY GOOD AT FOLLOWING-UP. I BELIEVE THAT IF YOU PERSIST IN YOUR PRESENT LINES OF INQUIRY, THAT PERSISTENCE ALONE WILL CAUSE FEDERAL GOVERNMENT EMPLOYEES TO DO THE RIGHT THING MORE OFTEN.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

A. ERNEST FITZGERALD,
Plaintiff,
v.
ROBERT E. HAMPTON, *et al.*,
Defendants.

CIVIL ACTION NO. 76-1486

FILED
JUN 15 1982
CLERK, U.S. DISTRICT COURT
DISTRICT OF COLUMBIA

SETTLEMENT AGREEMENT

The parties, through their counsel, hereby stipulate and agree as follows:

1. The United States Air Force ("Air Force") shall assign A. Ernest Fitzgerald to the position of Management Systems Deputy to the Assistant Secretary of the Air Force (Financial Management) effective June 21, 1982. The job description for this position is attached as Exhibit 1 and incorporated into this Settlement Agreement.

2. The Air Force shall in good faith assign Fitzgerald tasks and work assignments commensurate with the position of Management Systems Deputy to the Assistant Secretary of the Air Force (Financial Management) and provide him with the appropriate resources to carry out these assignments. Fitzgerald shall in good faith perform the tasks assigned to him in this position.

3. Pursuant to Rule 41(a) of the Federal Rules of Civil Procedure, this action is dismissed with prejudice subject only to the jurisdiction of the Court to enforce the terms and conditions of this Agreement. Should any party to this Settlement Agreement believe that any other party or parties have violated any provision of the Agreement, that party may file a motion in Civil Action No. 76-1486 alleging violation of the Settlement Agreement and the Court shall entertain such application to determine its validity and whether relief is appropriate.

ATCH 1

4. On February 6, 1984, the Air Force shall file a written report to this Court describing in detail the assignments given Fitzgerald in the position of Management Systems Deputy to the Assistant Secretary of the Air Force (Financial Management).

5. Simultaneously herewith the parties have filed a joint motion asking the Court to vacate the March 31, 1982, Memorandum and Order issued in this case. Whether this Court grants or denies this joint motion shall not affect the instant Settlement Agreement.

6. The Air Force shall pay to Fitzgerald's counsel on the date of the Court's approval of this Agreement the sum of $200,000 as attorneys' fees and costs for legal services provided plaintiff in this action. This payment shall constitute full satisfaction of any and all claims for attorneys' fees and costs, and plaintiff and his counsel hereby waive any and all claims against defendants for attorneys' fees and costs incurred in connection with these proceedings.

7. This Settlement Agreement does not constitute, and shall not be construed, as an admission of liability by the defendants nor as a concession by any party as to the correctness of any legal position or factual assertion advanced by any other party in this action.

John Bodner Jr
JOHN BODNER, JR.
HOWREY & SIMON
1730 Pennsylvania Avenue
Washington, D.C. 20006
Tel: (202) 383-6899

R. Lawrence Dessem
R. LAWRENCE DESSEM
Attorney, Department of Justice
10th & Pennsylvania Ave., N.W.
Washington, D.C. 20530
Tel: (202) 633-5108

APPROVED

William B Bryant
UNITED STATES DISTRICT JUDGE

June 15, 1982
DATE

FILED

[illegible] C.A. 76-1486

CLERK, U.S. DISTRICT COURT
DISTRICT OF COLUMBIA

I. INTRODUCTION:

The incumbent of this position acts for and assists the Principal Deputy and Assistant Secretary for Financial Management as Management Systems Deputy with responsibility and authority necessary for the development of improved management controls and broader use of statistical analysis within the Air Force.

II. DUTIES AND RESPONSIBILITIES:

1. The Management Systems Deputy is responsible at the highest Air Force level for policies and procedures regarding:

(a) Integrated performance measurement, cost control and reduction
(b) Economic cost effectiveness analysis
(c) Management information and control systems
(d) Productivity enhancement and measurement
(e) Statistical programs and analysis.
(f) Cost estimating and cost analysis.

2. Provides guidance and direction to the Air Staff and the Commands for the development and/or implementation of management information and control systems, resource management systems and associated data bases.

3. Formulates, establishes and implements policies and procedures for the Air Force productivity program including development of productivity enhancement goals and necessary reporting systems.

4. Responsible for Air Force integrated performance measurement including cost control and reduction activities. This responsibility includes supervision of Air Force performance measurement activities including cost/schedules control systems criteria (C/SCSC). Responsible for development of new systems and improvements of current systems for cost control and cost reduction, for application of "should cost" and related analyses and synthesis techniques to Air Force cost estimating, and for Air Force economic cost effectiveness analysis.

5. Performs or directs analyses and reviews of Air Force operational plans, mobilization plans, programs for foreign aid and other data, upon which financial requirements for resources are based, in order to develop or direct the development of effective management control systems.

EXHIBIT 1

6. Develops policies and procedures, and monitors the implementation of Air Force statistical programs including methods of analysis and presentation.

7. Serves as an advisor to the Assistant Secretary (Financial Management) while he is appearing before congressional committees. Serves on such committees and boards as specified by the Principal Deputy/Assistant Secretary.

8. Testifies before Congressional committees when requested.

9. Assures necessary program coordination between the Department of the Air Force, Department of Defense and other government agencies.

10. Accomplishes management studies and special projects as assigned by the Principal Deputy (Financial Management) or the Assistant Secretary (Financial Management).

Supervision Exercised: Incumbent is delegated necessary authority to carry out assigned duties and has authority to utilize resources, including manpower, as required to satisfactorily discharge the duties of his office. MEANS: GIVING WORK ASSIGNMENTS TO ("TASKING") THE AIR STAFF

III. CONTROLS OVER WORK:

Reports to the Principal Deputy/Assistant Secretary (Financial Management). Supervision is limited normally to status reports furnished to the Principal Deputy/Assistant Secretary (Financial Management) for purposes of keeping them informed and/or for further guidance and direction. Accomplishes assigned duties and responsibilities with a high degree of individual initiative and creativity. Requires a high degree of professional stature.

IV. OTHER SIGNIFICANT FACTS:

This position requires access to TOP SECRET information. Sensitive under paragraph 4b(2)(g), AFR 40-3. Incumbent has direct* access to information and is authorized travel to visit Air Force field activities and contractors as necessary to perform duties described herein.

*This one word cost me a ton.

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF COLUMBIA

A. ERNEST FITZGERALD,)
)
Plaintiff,)
)
v.) Civil Action No. 76-1486
)
ROBERT E. HAMPTON, et al.,)
)
Defendants.)

JOINT MOTION TO VACATE MARCH 31, 1982, MEMORANDUM AND ORDER

Pursuant to the Settlement Agreement filed simultaneously herewith, the parties to this action hereby jointly move the Court to vacate the Memorandum and Order entered herein on March 31, 1982. In support of this Joint Motion, the Court is referred to the Defendants' Statement of Points and Authorities in Support of Joint Motion to Vacate March 31, 1982, Memorandum and Order.

Respectfully submitted,

J. PAUL McGRATH
Assistant Attorney General

STANLEY S. HARRIS
United States Attorney

David J. Anderson
DAVID J. ANDERSON

R. Lawrence Dessem
R. LAWRENCE DESSEM

John Bodner, Jr.
JOHN BODNER, JR.

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Attorney for Plaintiff.

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(202) 633-3367

Attorneys for Defendants.

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF COLUMBIA

A. ERNEST FITZGERALD,)
)
Plaintiff,)
)
v.) Civil Action No. 76-1486
)
ROBERT E. HAMPTON, et al.,)
)
Defendants.)

DEFENDANTS' STATEMENT OF POINTS AND AUTHORITIES IN SUPPORT OF JOINT MOTION TO VACATE MARCH 31, 1982, MEMORANDUM AND ORDER

Pursuant to the Settlement Agreement filed simultaneously herewith, the parties to this action have filed a Joint Motion to Vacate the Memorandum and Order entered in this case on March 31, 1982. The instant Statement of Points and Authorities is now separately filed by defendants in support of that Joint Motion. The parties, as the Court knows, have never briefed the multitude of Equal Access to Justice Act issues presented by the March 31 decision. Moreover, the finding of bad faith contained in that decision may stigmatize the individual Air Force officials involved. Defendants, of course, have foregone their right to appeal this court's order by agreeing to a settlement of this action. In these circumstances, it would be equitable for this Court to grant the parties' Joint Motion and vacate its March 31, 1982, Memorandum and Order.

ARGUMENT

BECAUSE THE PARTIES HAVE NEVER BRIEFED THE APPLICABILITY OF THE EQUAL ACCESS TO JUSTICE ACT TO THIS CASE, AND BECAUSE OF THE STIGMATIZING EFFECT OF THE COURT'S FINDING OF BAD FAITH, THE MARCH 31, 1982, MEMORANDUM AND ORDER SHOULD BE VACATED.

Simultaneously herewith, the parties to this case have presented to the Court a Settlement Agreement which, if approved by the Court, will fully and finally resolve this action. Assuming the Court approves the parties' Settlement Agreement, and thus ends this long-standing litigation, it should simultaneously grant the parties' Joint Motion to Vacate the Court's March 31, 1982, Memorandum and Order.

This Court retains the power to vacate its March 31 decision prior to the entry of a final judgment in this action. As the Supreme Court has concluded:

> If [a decree] be only interlocutory, the court at any time before final decree may modify or rescind it. . . . [O]f course, if an interlocutory decree be involved, a rehearing may be sought at any time before final decree, provided due diligence be employed and a revision be otherwise consonant with equity.

John Simmons Company v. Grier Brothers Company, 258 U.S. 82, 88, 90-91 (1922). See also Marconi Wireless Co. v. United States, 320 U.S. 1, 47-48 (1943); Laffey v. Northwest Airlines, Inc., 206 U.S. App. D.C. 173, 178-79, 642 F.2d 578, 583-84 (1980); Bon Air Hotel, Inc. v. Time, Inc., 426 F.2d 858, 862 (5th Cir. 1970); Braxton v. Virginia Folding Box Company, 72 F.R.D. 124, 127 (E.D. Va. 1976). Accordingly, one commentator has recognized that "so long as the court has jurisdiction over an action, it should have complete power over interlocutory orders made therein and should be able to revise them when it is 'consonant with equity' to do so." 7 Moore's Federal Practice, ¶ 60.16[4].

The Supreme Court thus has routinely vacated decisions in cases that have become moot pending appeal. In United States v. Munsingwear, 340 U.S. 36, 39-40 (1950), the Supreme Court explained its handling of such cases as follows:

> The established practice of the Court in dealing with a civil case from a court in the federal system which has become moot while on its way here or pending our decision on the merits is to reverse or vacate the judgment below and remand with a direction to dismiss. . . . When that procedure is followed, the rights of all parties are preserved; none is prejudiced by a decision which in the statutory scheme was only preliminary.

See also Great Western Sugar Co. v. Nelson, 442 U.S. 92 (1979); DeFunis v. Odegaard, 416 U.S. 312, 319-20 (1974).

Indeed, the Supreme Court often has ordered the vacation of a lower court judgment because a subsequent settlement of the underlying action has rendered that action moot. E.g., Stewart v. Southern Railway Co., 315 U.S. 784 (1942); Hammond Clock Co. v. Schiff, 293 U.S. 529 (1934)(per curiam). Other federal courts also have routinely granted motions, such as the joint motion in the present case, to vacate decisions due to the settlement of the underlying cause of action. *E.g.*, *Bueschen* v. *Fluor Ocean Services, Inc.*, 494 F.2d 1354 (5th Cir. 1974); *Mixon* v. *Atlantic Coast Line Railroad Company*, 389 F.2d 770 (5th Cir. 1968); *Veatch* v. *Resor*, 388 F.2d 310 (10th Cir. 1967)(*per curiam*). *See also* *Consumers Union* v. *Kissinger*, 165 U.S. App. D.C. 75, 79-80, 506 F.2d 136, 140-41 (1974), *cert. denied*, 421 U.S. 1004 (1975); *Dubose* v. *Harris*, 82 F.R.D. 582, 598 (D. Conn. 1979).

In the present action at least two separate equitable considerations compel the vacation of the Court's March 31, 1982, Memorandum and Order. Although the Court in its March 31 decision found the defendants liable for attorneys' fees for "services rendered throughout the course of [this] litigation," Memorandum and Order, at 4, that decision raised numerous questions concerning the applicability of the Equal Access to Justice Act ("EAJA") to this case. Among these EAJA questions is whether that statute retroactively applies to a case such as this that was filed over five years before the effective date of the EAJA, in which dispositive motions were filed almost four years before the effective date of that Act, and in which the final briefing on attorneys' fees was completed several months before that same effective date. Additionally, in the event that the Court intended its March 31 decision to cover attorneys' fees rendered before the filing of the present action, numerous other EAJA questions arise, including, *inter alia*, the basis, if any, upon which fees can be awarded for administrative or judicial proceedings that were not pending as of the EAJA's effective date; the basis, if any, upon which attorneys' fees can be awarded for time expended on non-adversary administrative adjudications, and the res judicata effect, if any, of plaintiff's prior unsuccessful action for the recovery of his attorneys' fees and costs.

Because plaintiff's request for attorneys' fees was fully briefed well before the effective date of the EAJA, and plaintiff did not file an EAJA fee request after the effective date of that Act, none of these issues were briefed by any of the parties to this case. By entering into the Settlement Agreement that is being simultaneously submitted to the Court, defendants have waived their right to brief these issues in either an opposition to plaintiff's fee request or in an appea of any final judgment entered in this action. The Court's March 31 decision, addressing issues never briefed by the parties, thus should be vacated by the Court.

Furthermore, the finding of bad faith contained in the Court's March 31 Memorandum and Order provides an independent basis for the vacation of the Court's decision. For, by entering into the Settlement Agreement with plaintiff, defendants have waived their rights to challenge not only the Court's interpretation of the EAJA but also the finding of bad faith underlying the Court's March 31 decision. Totally apart from whatever legal consequences might stem from the alleged conduc in question, the Court's characterization of that conduct as "vexatious and obstructive" bad faith very well may stigmatize the individual Air Force officials allegedly responsible for such conduct. Now that the parties have entered into a comprehensive settlement of this action, the stigmatizing effects o the Court's March 31 decision should, to the extent possible, be ameliorated by the vacation of that decision.

Therefore, both the fact that the parties have never briefed the EAJA issues in this case and the possible stigmatizing effect of the Court's finding of bad faith strongly support the vacation of the Court's March 31 decision.

CONCLUSION

For the reasons set forth above, the Court should grant the parties' Joint Motion to Vacate March 31, 1982, Memorandu and Order.

Respectfully submitted,

J. PAUL McGRATH
Assistant Attorney General

STANLEY S. HARRIS
United States Attorney

David J. Anderson/RLD

DAVID J. ANDERSON

R. Lawrence Dessem

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UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

A. ERNEST FITZGERALD,)
)
Plaintiff,)
)
v.) Civil Action No. 76-1486
)
ROBERT E. HAMPTON, et al.,)
)
Defendants.)

ORDER

This matter having come before the Court on the parties' Joint Motion to Vacate March 31, 1982, Memorandum and Order and the Court having considered the parties' Joint Motion and the entire record herein, and having found good cause for the parties' motion, it is, this __ day of June, 1982, hereby

ORDERED that the parties' Joint Motion to Vacate March 31, 1982, Memorandum and Order is granted and the Court's March 31, 1982, Memorandum and Order is hereby vacated.

UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

A. ERNEST FITZGERALD,
Plaintiff,

v.

ROBERT E. HAMPTON, et al.,
Defendants.

C.A No. 76-1486

FILED
JUL 27 1982
CLERK, U.S. DISTRICT COURT
DISTRICT OF COLUMBIA

ORDER

This matter having come before the court on the parties' Joint Motion to Vacate March 31, 1982, Memorandum and Order and the court having considered the parties' Joint Motion and the entire record herein, it is, this 27th day of July, 1982, hereby

ORDERED that the parties' Joint Motion to Vacate March 31, 1982, Memorandum and Order is denied.

UNITED STATES DISTRICT JUDGE

(N)

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE SYSTEMS COMMAND
ANDREWS AIR FORCE BASE, DC 20334

21 OCT 1982

REPLY TO ATTN OF: AC/PM

SUBJECT: Contractor Manufacturing Direct Labor Hours (HQ USAF/ACM Ltr, 22 Jul 82)

TO: HQ USAF/ACM/RDC

1. We are transmitting the manufacturing cost data requested by your letter of 22 Jul 82. Attachment 1 depicts a matrix of the various missile programs included in the Test study. The data received from the field is included in attachment 2.

2. Please note the difficulty in drawing any contractor efficiency conclusions by comparing the standard hour or realization factors of the various contractors. The comparison would be subjective because of the contractor unique elements contributing to the composition of the individual contractor's standard hour and realization build-up. Additionally, weighting factors must be given to the contractors' current program acquisition phase, program make/buy strategy, business base and capital investment policy to make any further comparison.

Bernard L Weiss

BERNARD L. WEISS
Brigadier General, USAF
DCS/Contracting & Manufacturing

2 Atch
1. Mfg Cost Visibility Info Status
2. Field Data Input

Daniel B. Geran

DANIEL B. GERAN
Brigadier General, USAF
DCS/Comptroller

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

15 November 1982

MEMORANDUM FOR MR. BASEMAN, AF/ACM

SUBJECT: Contractor Manufacturing Direct Labor Hours

Thank you for your 29 October 1982 memorandum, subject as above, which I am returning.

I request that the Director of Manufacturing at the Contract Management Division of AFSC, AFCMD/PD, be assigned responsibility for completing collection of data and putting it in the format previously agreed to.

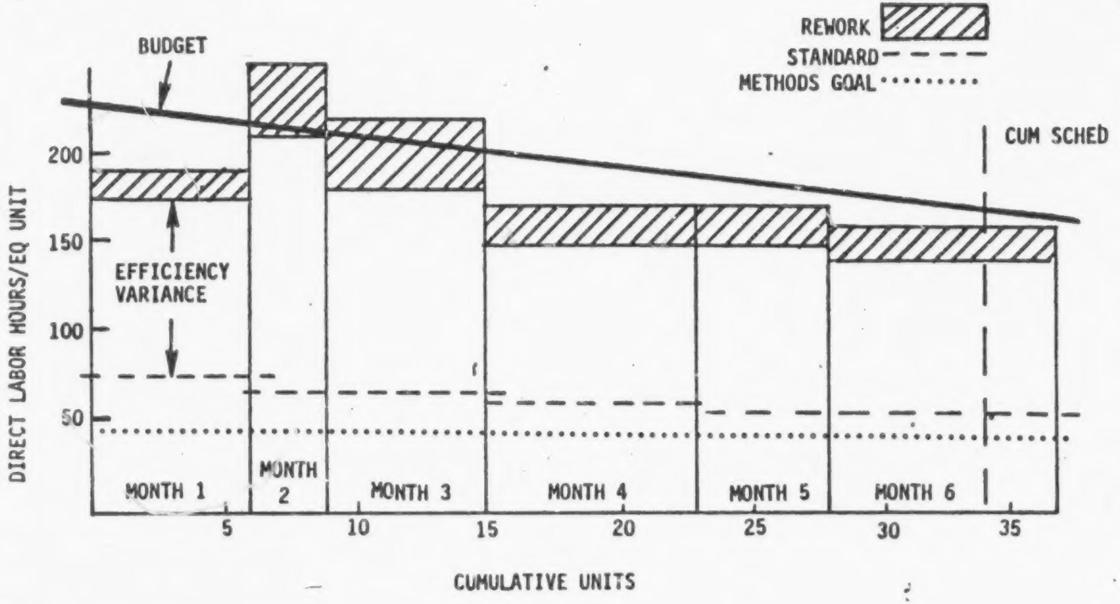
Please provide me the requested information in the previously agreed to format not later than close of business 10 December 1982.

A E Fitzgerald

Attachment

A. E. FITZGERALD
Management Systems Deputy

MANUFACTURING DIRECT LABOR HOURS PER EQUIV UNIT



STD HRS/ 170 HR WORKER	73	53	61	68	62	67

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D C
20330

7 JAN 1983

MEMORANDUM FOR SAF/FMM

SUBJECT: Contractor Manufacturing Direct Labor Hours (Your Memo to AF/AFCM, 15 Nov 82) - ACTION MEMORANDUM

This is in response to your memo to Mr. Baseman regarding Contractor Manufacturing Direct Labor Hours. AF/RDC is responding to your request because we are the Air Force OPR for Work Measurement (MIL-STD-1567).

Your memorandum refers to some previously agreed to formats for the data in question. After a considerable amount of discussion and research, we have not been able to determine who made these agreements nor what formats were specified. For this reason, we request that you reconfirm to us the scope of the desired data and the details of your desired format so deficiencies in the data presentation can be corrected.

We regret the confusion and delay in responding to your request. If you will provide the information which we have requested, we will see that your request is handled in the most expeditious possible manner.

Joseph H. Connolly
JOSEPH H. CONNOLLY
Major General, USAF
Director, Contracting &
Manufacturing Policy

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

11 January 1983

MEMORANDUM FOR MR. FITZGERALD

SUBJECT: Access to Data/Information

Reference is made to your memorandum for Mr. Baseman, AF/ACM, dated 15 Nov 1982, Subject: Contractor Manufacturing Direct Labor Hours, requesting information to be provided by 10 Dec 82 (Atch 1). As you will recall, due to lack of response you asked your administrative assistant, Ms. Dudka, to follow-up on 13 December. Her M/R on her follow-up is included with Atch 1; it is dated 13 Dec and reports that AF/RDC now had the action, Systems Command "couldn't do it", and that AF/RDC were sending a memo to us presumably requesting some sort of clarification. I was reminded of the subject yesterday when I received a copy of Gen Connolly's

(AF/RDC) memorandum for you dated 7 Jan 83. The memorandum says in part that "... after a considerable amount of discussion and research, we have not been able to determine who made these agreements nor what formats were specified ..." The formats in question are those worked up by Lt Col Stan Kagan of AFSC/ACC, which were briefed by AFSC/ACC personnel to Gen Marsh and his staff prior to our meeting with Gen Marsh and his staff (including AFSC/FM) on 1 June 1982 during which the basic data request and the formats were discussed at length. Also, several personnel in AF/ACM were knowledgeable of the overall subject prior to the time they forwarded your 15 Nov request to AF/RDC. Not least, of course, the AF/RDC people could have asked you or me by means of a simple telephone call.

Looking back on events, and noting particularly that almost a month was taken by AF/RDCP to provide a brief, nonsubstantive memorandum for Gen Connolly's signature, I seem to recollect an archaic British military regulation that provided courts-martial punishment for "dumb insolence"; that is, for behavior which consisted essentially of an unbelievable assertion of non-understanding of orders, directions, or requests. I think you will agree with me that the idea of introducing that concept and practice in the Uniform Code of Military Justice may be worthy of serious consideration as a means of providing productive, responsive actions on the part of the Air Staff.

Colin D Parfitt
COLIN D. PARFITT

Attachment

---

13 Dec 1982

Re attached requirement --

Called Lee Baseman's office and was advised by his secretary that Mr. Baseman had transferred the action to Mr. Bob Sands.
Ext 59043
Called Mr. Sands who said Capt Tom Mailer was working on it but that they had been advised by Systems Command that they "couldn't do it" -- they are sending back a memo to SAF/FMM asking for clarification on what is required since Systems Command said they couldn't do it.

CHRONOLOGY

Willard Mitchell's memo of 9 July for General Browning, AF/AC, Subject: Contractor Manufacturing Direct Labor Hours

Signed during the evening (after 1700) of Friday, 9 July, went out in "holey" envelop first mail pick-up Monday, 12 July.

I checked the AF/CVAE mailroom and they have no record of the memo, presumably because the "holey" envelop went straight on through in the mail.

Major Rounsavall, AF/AC Exec, is certain it did not sit around in AF/AC because their middle name is "expedite". They have no log record because there was no suspense date.

Lt Col Jack Mechanic, AF/ACM Exec, telephoned me after Major Rounsavall talked to him, and said that the memo went out with Col Kane's 22 July letter to AFSC, and that they had "turned it around" in one day which would make the date of receipt by them the 21st of July.

Major Brady Foster, AFSC/ACCI, told me the action copy reached his office on 29 July. He also added that he had received a xerox copy of the memo from Major Bob Vuori, AFSC/MP, "a couple of days earlier."

HEADQUARTERS
UNITED STATES AIR FORCE
DIRECTORATE OF COST AND MANAGEMENT ANALYSIS

OFFICE OF THE DIRECTOR **DATE:** 29 OCT 1982

MEMORANDUM FOR: SAF/FMM (Mr A.E. Fitzgerald)

SUBJECT: Contractor Manufacturing Direct Labor Hours

Attached is the data collected thus far as requested by your memo of 9 July 82, and as modified by AFSC and discussed with you on 31 August. We will forward the balance of the data as soon as it is available.

E. T. [illegible]
Associate Director
Directorate of Cost and
Management Analysis

1 Atch
AFSC ltr, w/atch

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

15 November 1982

MEMORANDUM FOR MR. BASEMAN, AF/ACM

SUBJECT: Contractor Manufacturing Direct Labor Hours

Thank you for your 29 October 1982 memorandum, subject as above, which I am returning.

I request that the Director of Manufacturing at the Contract Management Division of AFSC, AFCMD/PD, be assigned responsibility for completing collection of data and putting it in the format previously agreed to.

Please provide me the requested information in the previously agreed to format not later than close of business 10 December 1982.

AEFitzgerald
A. E. FITZGERALD
Management Systems Deputy

Attachment

(Top drawer of safe)

Blind Cys to:
Gen Geran
Gen Weiss
Om Chauhan
Jack Bryan

ROUTING AND TRANSMITTAL SLIP

Date 24 Feb 83

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. PD		
2.		
3.		
4.		
5.		

Action	File	Note and Return
Approval	For Clearance	Per Conversation
As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

REMARKS

(Original has been routed on to CC.)

Col Engelbeck's comment:

- "Suggest you do nothing until being tasked via AFSC--you shouldn't have excess manhours available to respond to every whim that flys by.
- Unless the approach would help the war on cost.
- See us."

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post)	Room No.—Bldg.
CV	Phone No.

5041-102

OPTIONAL FORM 41 (Rev. 7-76)
Prescribed by GSA
FPMR (41 CFR) 101-11.206

---

10 1 U

- Suggest you do nothing until being via AFSC - You shouldn't have excess
- Unless the approach would help the war on cost.
- See us.

CS K
CV 3

MEMO TO: CC

SUBJECT: Mr A. E. Fitzgerald's Memo to AFCMD dated 17 Jan 83

1. We have not received formal tasking to respond to Mr Fitzgerald's request. We understand what Mr Fitzgerald needs and can respond in two weeks from date of formal tasking.

2. Information requested by Mr Fitzgerald is significant in understanding current cost trends. We would like to brief you before we forward this information through channels.

Jack B. Bryan

JACK B. BRYAN, Colonel, USAF
Director of Manufacturing Operations

1 Atch
Mr Fitzgerald's Memo, 17 Jan 83

MEMO FOR AFCMD

AS ATTACHMENTS 1 & 2 INDICATE, HIGHER HEADQUARTE DOES NOT UNDERSTAND MY REQUEST TO YOU THROUGH CHANNELS. BASED ON MY CONVERSATIONS TODAY, IT IS CLEAR THAT AFCMD/PD UNDERSTANDS IT VERY WELL.

ATTACHMENT 3 IS THE FORMAT PREPARED BY AFCMD, LAST JUNE WHICH I (AND AFSC REPS TOO, I BELIEV AGREED TO AT THAT TIME

PLEASE FOLLOW THROUG ON MY REQUEST OF 15 NOVEMBER, 1982. SINCE MY ORIGINAL DEADLINE OBVIOUSL CANNOT BE MET, PLEASE GIVE ME A COMPLETION DATE AS SOON AS POSSIBLE.

MGT. SYS. DEPOT.
17 JANUARY, 198

UNCLASSIFIED

01 01 151500Z MAR 83 RR RR UUUU

PMDE 081200

YES

OC —

HQ AFSC ANDREWS AFB MD//PM//
AFCMD KIRTLAND AFB NM//CC//
INFO AFCMD KIRTLAND AFB NM//PD//

UNCLAS

SUBJECT: PROGRAM STANDARD HOUR AND REALIZATION DATA

1. MR. FITZGERALD {SAF/FMM} DIRECTLY REQUESTED FROM AFCMD STANDARD HOUR AND REALIZATION DATA IN SPECIFIED FORMAT ON SELECTED SYSTEMS. REQUEST YOU SEND THIS DATA, WHEN AVAILABLE, TO HQ AFSC/PM TO BE FORWARDED THROUGH CHANNELS.

2. OUR FOCAL POINT IS MR. JIM WEBBER, HQ AFSC/PMDE, AUTOVON 858-6540.

MR. WEBBER/PMDE/EXT 6540/PRR
JAMES C. DEVER, JR.
Brigadier General, USAF
DCS/Contracting & Manufacturing

UNCLASSIFIED

DEPARTMENT OF THE AIR FORCE
OFFICE OF THE CHIEF OF STAFF
UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330

13 JUL 1983

MEMO FOR SAF/FMM

SUBJECT: Manufacturing Cost Visibility Data - INFORMATION MEMORANDUM

The information you requested from AFCMD is attached. The data was collected on a one time basis. It is not complete because data available from contractor data collection systems did not include some of the requested information.

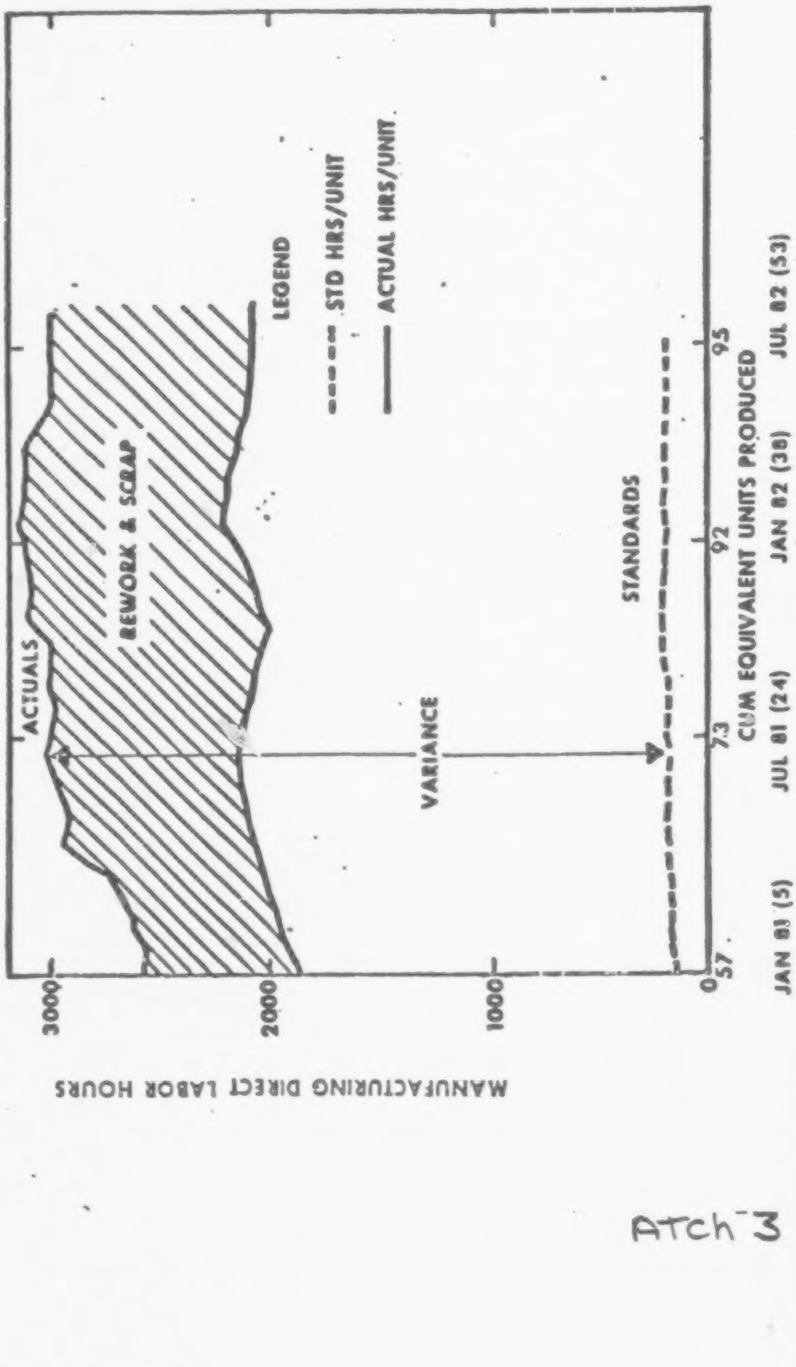
Questions should be addressed to Steve Shelley, AF/RDCM, 697-8850.

Rec'd 13 Jul 83
1400 hrs

HOWARD W. LEAF, Lt General, USAF
Assistant Vice Chief of Staff

1 Atch
Manufacturing Reference Data

IR MAVERICK
MANUFACTURING DIRECT LABOR HRS/EQUIVALENT UNIT



Atch 3

PMDE/Mr. Keller/6 Jun 83/bgr KELLER54 BGR2 FILE__________
Memorandum for: PM

Subject: Manufacturing Cost Visibility Data Requested by Mr. A.E. Fitzgerald U

1. Paragraph 2 below is in response to your questions:

a. What is the background on subject data?

b. When was Mr. Fitzgerald's request made?

2. AFCMD has submitted this package in response to a SAF/FMM request in a hand-written memo of 17 Jan 83 (Atch 1). The memo stipulates a format for the data. (This was the second request for the same data. The first request was answered with raw, unformatted, data, provided 21 Oct 82.) We requested AFCMD submit the data through us (Atch 2).

3. PM received the data with a cover letter (16 May 83) and "general comments" from AFCMD about 24 May. PMD has prepared a talking paper describing it (Atch 3). The data is not in the required format, is not complete, and raises unanswered questions for which AFCMD may now have answers. The "general comments" provided are not a part of the data and not to be forwarded, as indicated by Col Bryan, AFCMD/PD, in a telecon with Walt Keller, HQ AFSC/PMDE, 3 Jun 83. In the same conversation, Col Bryan indicated that AFCMD as originator would mark the data FOUO. We have so marked copies in our possession.

4. We cannot endorse this contractor data, nor can we refrain from passing it on. I therefore recommend the data, accompanied by the attached transmittal letter (Atch 4), but without the "general comments" page, be forwarded.

5. This approach, but not this final transmittal letter, has been coordinated with PMM and ACC. Information copies of the data have been provided to SDX.

6. This is not the last we will hear of this data. The format will become the next issue. AFCMD is interested in having contractors furnish data in this format on a regular basis. I understand Brigadier General Stukel will discuss this data (and probably this format) with General Marsh. Since we are now working on the Data Item Description for MIL STD 1528A (Manufacturing Management) we have a mechanism to provide this or some other format for program use. We will review the possibility of using this or a related format.

7. Whatever format is used, the data will raise many questions that should be asked and answered by the CAS/SPO. Any distribution beyond those offices should be accompanied by analysis, specifically including CAS assessment, describing the reasons and contractor-planned corrective action where needed, for the anomalies in the data.

4 Atch
1. SAF/FMM Memo, 17 Jan 83
2. HQ AFSC/PM Msg 151500Z
3. Talking Paper, AFCMD Manufacturing Cost Visibility Data Requested by Mr. A.E. Fitzgerald (FOUO)
4. Proposed Ltr

GENERAL COMMENTS
MANUFACTURING COST VISIBILITY EXERCISE

- THIS EXERCISE HAS MADE US REALIZE WHAT TYPE OF DATA WE NEED FOR COST VISIBILITY
- WE HAVE MADE MINOR CHANGES TO THE FORMAT TO ALLOW FOR COST AND SCHEDULE VISIBILITY
- WE WILL PROVIDE THIS FORMAT TO OUR AFPROS TO USE IN FUTURE PROGRAM COST MONITORING
- WE ALSO RECOMMEND THAT THE PROGRAM OFFICE USE THIS FORMAT TO MONITOR THEIR PROGRAM COST AND SCHEDULE
- PROGRAM OFFICE SHOULD REQUEST IN THE CONTRACT FOR COST AND SCHEDULE DATA TO BE PROVIDED IN THIS FORMAT
- IT IS SIMPLE AND PROVIDES INSTANT VISIBILITY INTO THE PROGRAM COST AND SCHEDULE
- WE WILL HAVE SOME OPPOSITION FROM THE CONTRACTORS IF WE USED THIS FORMAT

DEPARTMENT OF THE AIR FORCE
WASHINGTON, D.C. 20330

OFFICE OF THE SECRETARY

MEMORANDUM FOR THE CHIEF OF STAFF

SUBJECT: Equivalent Unit Cost Reports

I recently had an opportunity to review the equivalent unit costs of a variety of our weapons systems contained in General Leaf's 13 July 1983 communication to SAF/FMM.

I found the whole package intriguing, but I was particularly struck by the realization that the information contained in the IR Maverick equivalent unit cost chart (see attached) summarizes graphically and simply the findings of the productivity section of the Hughes Capability Study. I am sure you recall the excellent work done by the Contract Management Division, AFSC, on this project.

I believe we should have available to us up-to-date information of the sort illustrated in the attachment on all our larger acquisition programs. I can think of numerous instances where I could have used such information myself, especially in conversations with officials of contractor firms. I am sure that people at other levels of our organization could make even better use of the data.

Please ask the Staff and AFSC to work closely with Russ Hale's Management Systems Deputy to make sure that up-to-date information depicted in the attachment is available to the Secretariat routinely. In order to speed up this project and also to help train and orient our contract administration people, I should like to have the contract administrators pull together the requested information in hard-copy form to begin with. Later on, I would hope that we could arrange for such data to be called up routinely on our computer terminals so that we could have access as needed with minimum paperwork.

Attachment

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

31 January 1984

MEMORANDUM FOR MR. FITZGERALD, SAFFMM

Senator Grassley has expressed an interest in work measurement. Please get with the Secretary's Staff Group and provide input and recommendations from your work in this area. Our objective should be to provide a quick compilation of Air Force documents, other references, and background information. The Staff Group will develop a response for Secretary Orr.

Russ Hale

RUSSELL D. HALE
Assistant Secretary of the Air Force
(Financial Management)

Attachment
SAFUS memo dtd 31 Jan 84
w/atchd note from Sen Grassley

cc: SAF/OSX

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE UNDER SECRETARY

31 January 1984

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FM)
ASSISTANT SECRETARY OF THE AIR FORCE (AL)
SECRETARY'S STAFF GROUP

Secretary Orr received the attached note from Senator Grassley and asked that I take immediate action in his absence. His question goes to the heart of our ability to assess the content of weapon system costs.

I am aware work measurement has been included in one recently published directive and is included in another.

Please take all necessary steps to answer Senator Grassley's questions, bringing together the current information in the Air Force, DOD, private sector, and academia on work measurement. The Secretary's Staff Group will compile the initial answer with inputs from FM and AL.

E C Aldridge J

Attachment

E. C. Aldridge, Jr.
Acting Secretary of the
Air Force

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC [illegible]

Fmm

The Honorable Charles E. Grassley
United States Senate
Washington, DC 25010

27 APR 1984

Dear Senator Grassley

Attached is the remainder of the productivity data you requested on Air Force SAR programs. In the interest of timeliness, we are forwarding the information to you just as we received it from the field (Mr. Chauhan already has a copy). We should point out that our headquarters people have not had the opportunity to evaluate the information fully, so comparisons of independent programs may be misleading.

On first reading, you may be as disturbed as we were at the low labor realization of some of our programs. Please bear in mind that, as in the case of our discovery of spare parts overpricing, identifying this low performance was possible because of the Air Force initiative in manufacturing work measurement. Had our people not persisted in keeping alive the extremely important concepts embodied in our work measurement procedures, the kinds of comparisons of actual hours expended to standard or should-take hours shown in the attachments would not be possible.

Starting in 1982, the Air Force set in motion a comprehensive plan to evaluate acquisition costs. With limited staff and needed skills, we decided to tackle the program cost element by cost element--that is, to start separate evaluations of people, material, overhead, subcontracts, and profits. For example, you may recall our initiative in the personnel cost area. A companion piece to the labor rate area for contractor and in-house factory operations is our work measurement initiative to evaluate the efficiency of labor hours expended in producing a given amount of work. We view this newly available information as an opportunity to acquire more real defense readiness per dollar, to save the taxpayers money, and to lead the way to improving our country's competitive position by restoring traditional labor efficiency in industry.

As you can appreciate, some will be apprehensive over the improvement potential we have identified through these work measurement reports. Nevertheless, we are determined to improve productivity. We are, in fact, currently examining this data and the managerial benefits it may hold for us and we would be glad to brief you on our findings in several weeks. We are grateful for your interest in our work and we ask your continued support of our efforts.

Please consider this data as confidential commercial or financial information that could cause substantial competitive harm to the contractors if released to the public (18 U.S.C. Section 1905).

Sincerely

CLIFFORD H. REES, JR.
Brigadier General, USAF
Deputy Director
Legislative Liaison

1 Attachment
Work Measurement Data

UNITED STATES SENATE
WASHINGTON, D.C. 20510

CHARLES E. GRASSLEY
IOWA

Dear Vern:

As a result of discussions with you and your staff, I've become interested in improving our oversight of federal spending through use of work-measurement indicators.

I would like all current and trend information on unit standard hour content on SAR Systems and relate actual hours expended.

Thanks!

Sincerely,
Chuck.

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

9 August 1982

MEMO FOR RECORD - TRIP REPORT - Visit to Pratt & Whitney
Government Products Division (P&W GPD)
West Palm Beach, FL - 27-28 July 1982

SAF/FM representatives were Mr. James Ririe and the undersigned.

Personnel contacted during the visit were:

Col John Roberts ----------------- Comdr, AFPRO
Mr. Hugh J. Moyes (Jay) ---------- AFPRO/TM
Mr. Tony Sheppard ---------------- " /TMO
Mr. Paul Biadasz ------- (Pricing) " /TMF
Mr. Charles Haas ----------------- " /TMF

Colonel Roberts participated in the opening discussions for about the first hour of our visit. We explained in general terms the concerns of Secretary Orr regarding (1) the ususally late disclosures at his level of impending or imminent cost over-runs, and (2) the anomalously high rates of pay in the aerospace industry (which are, in all likelihood, only too typical of defense industries in general). We also explained the events to date in the review of C/SCSC by our office, concluding with the point that we were now moving to the second facet, labor rates, of the labor cost element of defense production.

After the general discussion, all personnel except Col Roberts adjourned to a conference room for detailed discussions of specifics.

With regard to the skill mix of P&W GPD's hands-on production workers, the AFPRO personnel had no information available. Similarly, they had no detailed information with respect to what kinds of engineers, or what specialty classifications of engineers, were working on various lines of endeavor. As of 9 July 1982, some 3266 of 6912 employees were classified as "direct labor" in the P&W GPD plant. Of the "direct" workers, only 650 were "hands on" type workers, such as machine operators, journeyman machinists, tool makers, etc. The remaining 2616 "direct" workers were presumably mostly engineers of various kinds (see Atch 1). The AFPRO people explained that "Treasury" employees are people at the "Vice President" level whose individual compensation is not generally known and who are paid from a higher level in the parent company, United Technologies Corporation. I asked about "Compensation Reviews". None had been done since the Air Force took cognizance from the Navy in 1977, and no one knew if any had been done during the Navy's incumbency at the plant. As a result of the recent (March 13/April 14) DCAA audit report, the DCAS had been requested to do a compensation review, and by fortunate coincidence, two copies of the completed review were provided to the AFPRO during our visit. Jim Ririe has xerox copies of large segments of this DCAS report.

In response to our request for employee data in the same breakout as that of the 13 March 1982 DCAA report on wage rates, we were provided the handwritten data in Attachment 2 that showed 3248 "direct" and 3714 "indirect" workers as of 30 June 1982. Much later in the day, we returned to the subject of "who was working on what?" Mr. Moyes said that the AFPRO organization will do an initial review of a sample of the higher-graded engineers to find out what skills are devoted to what lines of endeavor, and will examine the feasibility of doing a full-scale review. They expect to undertake this effort within two months. If a full study is undertaken, it will be done in FY 83 and will be completed within six months from now.

To determine the expected trend of labor costs, the pricing personnel in the AFPRO use a G.E. "canned" program for "exponential smoothing" of past actuals (Atch 3). The system gives added weight to the more recent experience. Since the "more recent experience" at P&W GPD is preplanned to include generous step-ups in pay (see P&W internal correspondence on 1982 Salary Increase Programs, Atchs 4 & 5), it seems to me that the G.E. system in use would accelerate the upward curve of the projections over time. This will ultimately result in an asymptotic line rising perpendicularly on the graph. The only "control" used by wage rate analysts in P&W GPD AFPRO is a subjective comparison with Data Resources, Inc. (DRI) forecast data to be sure that in-house data is moving in the same direction as, and not contradictory to, the DRI forecasts. This comparison of the general direction of trends is also limited by the price analysts' lack of comparative factual data pertaining to specific elements such as COLA, merit pay increases, general increases, etc. The price analysts recognize and allow for the cost of P&W GPD expected promotions, merit increases, etc. on the basis provided to them by the contractor (ref to Atchs 4 & 5). During the discussions, we elicited the fact that no provision is made with respect to the decrease factor associated with the attrition of long-service employees as a result of retirements and other causes, although such employees are generally replaced by personnel at lower salary levels. Overall, I could only conclude from the lengthy discussions that the AFPRO pricing forecasts are bound to come out close to those input to them by the contractor. That conclusion is supported by comparison of the P&W proposed rates for 1982 with the rates recommended by the AFPRO price analysts, as follows:

	P&W	AFPRO	Differences Increase (Decrea
Engineering			
Salary Non-Exempt	9.99	10.08	.09
Salary Exempt	16.95	16.92	(.03)
Treasury	26.64	26.69	.05
Manufacturing			
Hourly	10.77	10.72	(.05)
Test			
Hourly	12.16	12.10	(.06)
Salary Non-Exempt	11.27	11.25	(.02)
Salary Exempt	16.95	16.94	(.01)
Quality			
Hourly	10.93	10.94	.01
Salary Non-Exempt	9.11	9.52	.41
Salary Exempt	15.08	14.89	(.19)
Tooling			
Hourly	11.29	11.20	(.09)
Assembly			
Hourly	11.02	10.97	(.05)

The price analysts' recommendations do not differ from the P&W proposals in any meaningful way.

The Procurement Contracting Officer (PCO) has delegated to the AFPRO the authority to negotiate forward pricing rate agreements. The agreements reached between the AFPRO and the contractor are binding on the PCO. However, the AFPRO's capability to negotiate effectively is restricted by their interpretation of the terms of the DAR which provides for "flow down: of the "rules" at the Stamford, Connecticut, headquarters of UTC, see DAR 15-203(b)(1) and 15-203 (b)(5) as highlighted in Atch 7. Also see the Corporate Administrative Contracting Officer's 4 Nov 81 letter to the P&W AFPRO, Atch 8.

The AFPRO personnel believe it to be impracticably difficult to raise a challenge to P&W GPD proposed rates on the grounds that they are already unreasonable or that newly proposed increases are unreasonably high. They highlighted the underscored portion of DAR 15-205.6(a)(2) for us (Atch 9) in explaining their views. Note that they seem to rely on only the first part of the sentence, as though the highlighted portion were the whole thing. The sentence goes on to describe compensation as being reasonable when it "... conforms generally to compensation paid by other firms of the same size, in the same industry, or in the same geographic area, for similar services." That is, the DAR states that the compensation in general should conform to other firms /not necessarily aerospace/ of the same size; or to other firms /not necessarily of the same size/ in the same industry; or to other firms /not necessarily of the same size nor the same industry/ in the same geographic area. The provision concerning "... the same geographic area ..." is exactly in line with Administration policy in regard to the Davis-Bacon Act and, as I recommended in my 13 July 1982 memorandum for you "Labor Rates in Production of Aerospace Weapons Systems", should be employed in compensation reviews and our evaluations of contractors' proposed labor rates.

The pricing personnel provided us with the "Contractor's Logic" employed in the P&W "going-in" position for Forward Pricing Rates in Calendar 1982 negotiations (Atch 10) which says in part, "... 9.5% escalation was applied in August of CY 82, 4% escalation was applied in Jan CY 83 and CY 84, and an 8% escalation was applied in June 83 and 84 ..." Or, in tabular form:

Aug 82 ----- +9.5%
Jan 83 ----- +4.0%
Jun 83 ----- +8.0%
Jan 84 ----- +4.0%
Jun 84 ----- +8.0%

Jim Ririe noted that the first three added to 21.5% (without compounding) in only 11 months. When compounded, the three increases amount almost exactly to 23% over 11 months; or a straight line projection of more than 25% per year. None of the AFPRO personnel seemed to think that those rates of increase are unreasonable.

The Directorate of Management Analysis reported in May 1982 that an analytical study showed that aerospace labor rates are currently 44% above other manufacturing and 39% above durable goods Bureau of Labor Statistics (BLS) categories. Since P&W GPD is not out of line with other aerospace contractors, there is no element of catch-up or get-well in the P&W proposed rate increases. Accordingly, wage/salary increases at an annual rate of 25% are clearly unreasonable in an environment where inflation for the 12 months ended 30 June 1982 was 7.1% (BLS-CPI).

Perhaps more significantly, none of the AFPRO personnel seemed to feel that there was any way to address in negotiations the notion that the wage/salary base to which the percentage pay increases are to be applied is also unreasonably high in the first place.

With respect to union labor, as of 30 June only 1094 personnel of 6959, or 15.7%, were union members, and only 1602, or 23%, were covered in the bargaining unit. Thus, there would seem to be no persuasive argument that efforts to introduce conservative wage restraint at P&W GPD would lead to "union problems". This plant has no great union clout on hand, but with or without the added factor of union opposition I believe that since wage rate negotiations are imminent, this is an ideal place for the Air Force to stand up and be counted in wage/salary negotiations with a contractor. We should bargain not with respect to what the contractor will pay his employees, which is his business, but how much of that we will accept as reasonable, and agree to pay, in our fiduciary management of the taxpayers' funds.

Colin D Parfitt

Attachments

COLIN D. PARFITT

1.481
MEMORANDUM FOR RECORD
13 September 1982

SUBJECT: Entrance Conference For DCASR
Compensation System Review

Attendees:

Ira Weinberg - P&WA Compensation
Neil Cleary - P&WA Contracts Liaison
Kevin Shanahan - P&WA Contracts Liaison
Col. J. Roberts - AFPRO
Jay Moyes - AFPRO
Paul Biadasz - AFPRO
Terry Sheppard - AFPRO
Ken Link - AFPRO
Chuck Haas - AFPRO
Tom Kevill - AFPRO
Ron Zinsitz - DCAA
Pete Bassaline - DCAA
Joan McKinney - DCAS
Al Eagan - DCAS

Col. Roberts opened the meeting with the following comments:

It is unfortunate that a personality - one individual's relocation problem would be linked with assertions of excess salaries at Pratt & Whitney. It is also unfortunate that these assertions about excess wages have been linked to escalation of products manufactured by P&W. For example, a PCO saw a slide recently showing price comparisons of eight parts and commented "that's the result of excess P&W salaries" - Well, when pricing looked into it they found six of the eight parts were subcontracted out.

My charge to you is to ignore what you've heard about P&W and perform an unbiased review. Let the chips fall where they may. The DCAA report should not be taken as fact. What I've seen on labor analysis done so far including the DCAA report is spongy - I mean soft.

I've been involved in discussions at DoD on this labor area and I don't mean at the Secretary of Air Force level, I mean higher up in the DoD. DoD policy is that we don't have a problem with labor rates unless someone is out to make a bundle off or through a defense contract. Don't get me wrong - if the wages were unreasonable then we would demand reductions.

I intend to meet with Mr. McAbee at 1:00 today on this very matter to let him know that we really need P&W and their engines in the most cost effective way. But this won't be the only meeting where this will be discussed - Why I'll probably speak to him on this matter two or three times before you leave.

On P&W concerns on release of payroll data to the public, we can get around. this if you just don't see/publish in your report individual salaries of the top ten employees. Can you work with say a comparison of an aggregate of salaries of the top ten employees at P&W with the top ten at other contractors? For example, if the top ten at Boeing earn $1.4 million and the top ten at P&W earn $1.3 million then isn't that reasonable, can't you live with that? Al Eagan replied, we are here at your request, if that satisfies you then we can do that. Col. Roberts said, yes, that meets our needs and those at higher levels in the DoD. We don't need salaries by individual. Jay Moyes said it's ok if the compensation analysts see the individual rates— our only problem is in publishing them. Neil Cleary advised P&W is certain there will be at least one Freedom of Information Act request on the DCASR report and GPD has a problem with the release of such information to the public. Col. Roberts said, we don't have a problem then if it's not published.

Col. Roberts concluded by saying that our very careers (DCASRs, DCAAs and the AFPRO and even the contractors) hinge on the outcome of this issue. We may not be around very long if this isn't handled right.

Al Eagan went into a briefing on the objective of the review and discussed the data requirements that P&W still has not furnished. Al said that regardless of high level visibility and the sensitivity of this review, they intend to conduct this review just like any other review. It will cover compliance with corporation policies and procedures and results of application of such procedures. The results will be judged by measuring P&W salaries against survey data P&W uses to determine what it should pay and against other defense contractor's labor rate data which DCASR maintains. However, Al was not sure what types of defense contractors would be used. DCASR assured P&W they wouldn't be measured against a thirty man machine shop down the street.

Earlier in a Government in-briefing Al said he had noticed moves within DoD to have defense contractor wages comparable to private industry; but they don't perform compensation reviews that way so the report will be meaningless if that's what the AFPRO wants. Jay Moyes said he wanted a comparison with other defense contractor's and has no use for comparisons with all of private industry.

Ron Zinsitz
RON ZINSITZ, Senior Auditor

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23 December 1982

MEMORANDUM FOR RECORD

SUBJECT: DCAS Compensation Review, Pratt & Whitney, West Palm Beach

On Dec 9, 1982 I called to ask DCAS, Atlanta Region, to provide information re their compensation review at P&W GPD West Palm Beach. THe regional chief's office put a Ms. McKinney on the line and she refused to give me any information at all. She referred me to Col Roberts, the AFPRO Chief at P&W GPD, West Palm Beach, as she had been requested by Col Roberts to do.

On 23 December I telephone Col Roberts' office, assuming that he and his staff had had more than adequate time to absorb the details of the DCAS Compensation Review. Col Roberts' secretary told me he was on leave until January. I asked for his Deputy, Col Calabrese, who told me:

(1) He had been told by Col Roberts not to release a copy of the report

(2) Only Col Roberts can release it, and he is controlling distribution of the report personally

(3) Col Roberts will be on leave until the beginning of January.

I asked Col Calabrese for Col Robert's home telephone number, which he gave me. About fifteen minutes later I called Col Roberts' residence and was told by his wife that he was out until 2 or 3 PM. I told her I would call at 4 PM.

On second thought, and after realizing that Col Roberts might have something to do other than be at home at 4 PM, I called back and asked Mrs. Roberts would she please ask Col Roberts to call SAF/FMM collect when he returned home.

As of close of business on 23 Dec (the 24th a holiday) Col Roberts had not called.

Colin D. Parfitt
COLIN D. PARFITT

12 January 1983

MEMORANDUM FOR RECORD

SUBJECT: DCAS Compensation Review, Pratt & Whitney, West Palm Beach

Reference is made to my MR, dated 23 Dec 1982, this subject, copy attached.

Today I telephone Col Roberts' office, AFPRO at P&W. I told his secretary that I had requested last week that Col Roberts please call us collect from his home if need be, and we had not yet heard from him. She said that she would give him the message. To date, Col Roberts has not returned our calls.

On Tuesday, 4 January, I again called Ms. McKinney of DCAS, Atlanta office. She reaffirmed that DCAS would not provide SAF/FM a copy of their compensation review per direction of Col Roberts. I then told her that we had received a copy from an unidentified source and asked her if I was correct in stating that their review contained no trend analysis over time with respect to P&W's West Palm Beach compensation rates. She agreed to review her report and call me back. I asked, "Is it correct to say the Company at West Palm Beach is not following UTC/P&W's own policies." She replied, "that is pretty much the case." In their comparative data charts I asked what "DLA Experience" meant in specific terms. She replied it referred to DLA's experience confined to the aerospace industry only.

To date, Ms, McKinney has not called me back with a specific response to my question on trend analysis. I have since learned that the pages we received constitute the complete report, so the question has become academic. The report contains no trend analysis.

Colin D. Parfitt

COLIN D. PARFITT

STAFF SUMMARY SHEET

	TO	ACTION	SIGNATURE (Surname), GRADE AND DATE		TO	ACTION	SIGNATURE (Surname), GRADE AND DATE
1	AF/RD	INFO		6			
2	AF/CC	INFO		7			
3	SAF/AL	INFO		8			
4				9			
5				10			

SURNAME OF ACTION OFFICER AND GRADE	SYMBOL	PHONE	TYPIST'S INIT	SUSPENSE DATE
Capt Mahler	RDCP	73888	JG	None

SUBJECT Review of Pratt-Whitney Employee Compensation

DATE 6 JAN 1983

SUMMARY

1. On 29 Nov 82, DCAS released an employee compensation review for the Pratt and Whitney Aircraft Group, Government Products Division (GPD), West Palm Beach, Fla. This review was performed at the request of the local AFPRO.

2. The review indicates that the average salary for some categories of GPD employees exceeds the average paid by competitors. This difference is most pronounced among the most highly paid employees. In particular, executive compensation seemed to be higher than normal. DCAS found that the salaries of the chief executive and the 10 other highest paid executives exceeded the norm for other defense contractors by 40%. For engineers, DCAS found that average annual salary increases for 1979-81 exceeded Department of Labor averages for engineers for the same years. In addition to these findings, DCAS found several examples of GPD failure to follow written company guidelines.

3. In addition to salaries and wages, DCAS reviewed GPD employee fringe benefits. They found GPD costs to be higher than average in the areas of pensions and group insurance payments, payments for time not worked, and contributions to employee savings plans. We question the accuracy of the employee savings plan findings. The GPD savings plan is similar to savings plans utilized by many defense contractors. There is an apparent conflict in the report between national average costs reported as profit sharing and GPD costs reported under savings plans. We do not question any of the other fringe benefit findings.

4. AFSC appointed a special team to investigate employee compensation problems for the entire Pratt and Whitney Aircraft Group. As a result of the teams efforts, AFSC will initiate a series of corrective actions in the near future. The details of these actions will be forwarded to the Air Staff as soon as they are available.

RECOMMENDATION

5. None, information only.

JOSEPH H. CONNOLLY
Major General, USAF
Director, Contracting &
Manufacturing Policy

1 TAB
Contractor Sys Review - Employee
Compensation, 29 Nov 82

1 [illegible] | 2 | 3 | 4

AF FORM AUG 77 1768 PREVIOUS EDITION WILL BE USED

A-Tch 6-D
8300265

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

5 April 1984

MEMO FOR RECORD

FOR: MR. FITZGERALD

SUBJECT: Fraudulent Mischarging of Direct Labor by Defense Contractors

As you know, about 35% of our irregular conduct cases referred by DCAA to DOD investigators in the year ended 12/31/83 consisted of labor mischarging by contractors.

Mr. Sherick's testimony before the Senate Governmental Affairs Committee on 1 March 1984 included the fact that during the last 6 months of 1983, DCAA had referred 59 potential fraud cases to DOD investigators. Sherick compared that with only 46 such cases for the entire preceding 12 months.

After our discussion of this subject in the early part of March, I asked Derek Vander Schaaf to provide me with the supporting detailed information on which Sherick's testimony was based. In response to my request, on Wednesday of this week I received a listing, "Summary of CAM 12-701, Suspected Irregular Conduct (sic) Cases Referred for Investigation, Period 10/1/79 - 6/30/83." Since this was not responsive to my original request, I called Derek on Thursday morning (5 April) but was unable to reach him. He returned my call later in the afternoon and I explained to him that we wanted the information for the last 6 months of 1983, as referred to by Sherick. Uncharacteristically, Derek sounded a trifle evasive and uptight and asked, among other things "Is this for official Air Force business or is it just something that Ernie Fitzgerald wants?"

I explained to him, as I had at the time of my original request to him in March, our ongoing project to set up workable controls in our financial systems to provide early warning indications of contractor labor mischarging. Derek made a few remarks about papers sent to this office being published in the Washington Times and added some words to the effect that his function was not to make news for the newspapers. He said that if the information was wanted for official purposes then the Air Force could get it directly from DCAA.

I reaffirmed for him that we did want the material for official purposes and pointed out that DCAA's lack of responsiveness to the Air Force would entail time-consuming and exceedingly tiresome delays if we dealt directly with them.

However, the matter was left finally, as I understood it, that we should request the information from DCAA and that if they failed to provide it then that would be the appropriate time to enlist the assistance of the DOD IG.

Colin D. Parfitt
COLIN D. PARFITT

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

5 April 1983

MEMORANDUM FOR GENERAL DRIESSNACK, AF/CVA

SUBJECT: Time Standards Validation and Should-Cost at Hughes

I understand that the should-cost study of the IIR Maverick at Hughes is set to begin in about two weeks. I have also been told that the standards validation requested by Secretary Orr is planned to start next week as a separate effort.

Since time standards validation is such an important part of a production should-cost study, I believe the two efforts should be combined. We have so few people skilled at performing or overseeing time standards evaluation that we should avoid overlap and duplication wherever possible. In addition, we should take advantage of work done by other Hughes customers in the same area. While lecturing at the Army Management Engineering Training Agency (AMETA), I was reminded that the Army had done should-cost reviews at Hughes in the past and also was told that they are planning further reviews. We should take advantage of the Army's experience by consulting with them closely and, if possible, borrowing at least one of the present or former AMETA work measurement instructors to assist us.

Please provide me copies of the present plans for the IIR Maverick should-cost, the standards validation project, and the names of individuals assigned to each project. Please make sure that the guidance and direction incorporated in this memo is incorporated into AFSC's work plans. Also, in order that I may stay abreast of the on-going work, please provide me with a copy of whatever work and staffing plans exist for the Hughes should-cost and standards validation projects by COB, Friday, 8 April 1983.

A E Fitzgerald
A. E. FITZGERALD
Management Systems Deputy

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

21 April 1983

MEMORANDUM FOR MR. HALE
THRU MR. FITZGERALD

SUBJECT: Trip Report to Hughes Tucson

On the afternoon of Wednesday, 13 April, I accompanied Mr. Fitzgerald via government air to Davis-Monthan AFB, Tucson, AZ. Our purpose was to observe and assist in the effort of validating the Hughes time standards for the items they are currently producing. It is my understanding that Mr. Orr requested that this validation be done. Our major interest was in the IR Maverick because the USAF will be negotiating price on this in the near future.

On Thursday morning, we met with the AFPRO (Lt Col Grant Hird) and the engineers who were going to do the validation study. Mr. Fitzgerald had acquired the services of two very experienced Army industrial engineers and two USAF engineers from Hill AFB who also appeared to be very knowledgeable. We then got a tour through the plant. I am not an experienced industrial engineer, but I have spent lots of time in plants building guided missiles and it seemed to me that not very many of the people were working and those that were working did not seem to be perspiring freely.

On Thursday afternoon and Friday morning, Mr. Fitzgerald kept asking for data and information that was necessary for the team to do its job. Finally, late Friday morning, and in response to a direct question, Lt Col Hird admitted that he was under orders not to give us anything of substance. After some discussion and a few telephone calls to Washington by Mr. Fitzgerald, we left and came home.

Upon returning to my office I have been examining the Contracts Management Division report on Hughes Tucson (dated Dec 82) in more depth. If one takes only the data submitted by Hughes and uses only salaried and hourly workers charging directly to a program (i.e., specifically no indirect or overhead workers), one gets that, on the average, each worker earns 7.98 standard hours per month on TV Maverick, 17.8 on TOW and 7.3 on Phoenix.

There are approximately 172 working hours in a month. In the aggregate, the workers on these programs earned an average of 10 standard hours per month. This is somewhat below 6% efficiency for these three programs which together comprise the major activity at Hughes. Thus, I am not surprised that Hughes and the AFPRO were not particularly eager to have us examining their affairs.

It is not the purpose of this memorandum to criticize Lt Col Hird. He is a military officer working in a military chain of command and he was faithfully carrying out explicit and strongly-stated orders from AFSC Headquarters. However, Mr. Orr has made his position on excessive costs very clear on several occasions. If the system is allowed to get away with this, all of us, including Mr. Orr, are simply wasting our time, breath, and the taxpayers' money.

Thomas S. Amlie
THOMAS S. AMLIE
Asst for Technical Systems

AMEN!
AEF
4/21/83

1/2

11:15 4/19/83

TELECON: AL ADLEFINGER & ED KINDINGER

I CALLED TO CHECK STATUS OF ELECTRO MAIL TRANSMISSION OF INTERIM TEAM REPORT. AL & ED SAID MAJ. WAFFLE-GAINE HAD REFUSED PERMISSION TO TRANSMIT IT. THEY ADDED THAT MAJ. W-G ~~HAD~~ TOLD THEM THEY WERE WORKING FOR AFCMD WHO WAS PAYING THE BILL & THAT ANY THING SENT TO ME SHOULD GO THRU CHANNELS IF SENT FORWAR I TOLD AL & ED THAT THE TAXPAYER WERE PAYING THE BILL & THAT THE STUDY THEY WERE ON WAS DIRECTE BY THE SECRETARY OF THE AIR FORCE.

11:30-12:00 AFTER RELAYING THE ABO TO COL ENSIGN BY TELEPHONE, I WALK TO MR HALE'S OFFICE WHERE I FOUND COL. ENSIGN TALKING WITH WILLARD MITCHELL. WILLARD LAUNCHED INTO HOSTILE QUESTIONING OF ME ABOUT WHY I NEEDED THE TEAM REPORT. I TOLD HIM I NEEDED THE REPORT FOR INCLUSION IN MY REPORT TO MR ORR (AS PREVIOUSLY AGREED WITH HIM & MR HALE) AND ALSO TO STOP THE STONEWALLING OF INFORMATION TO MY OFFICE

HALE ENTERED THE DISCUSSION & GAVE A MILDER VERSION OF THE MITCHELL "NEED TO KNOW" ARGUMENT. HE SAID HE WOULD TAKE THE MATTER UP WITH DRIESSNACK & LEFT THE OFFICE. A FEW MINUTES LATER HE ~~SEE~~ RETURNED & SAID HE WAS WAITING TO GET IN TO SEE ALDERICH (UNDER SECRETARY).

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

19 April 1983

MEMORANDUM FOR MR. HALE, SAFFM

SUBJECT: Request for Remedial Action

You are thoroughly familiar with the details of the recent fiasco of Mr. Ernest Fitzgerald's official visit on April 14-15 to the AFPRO, and the plant, at Hughes Aircraft Corporation's Tucson activities.

Lt Col Hird, the Chief of the AFPRO at Hughes Tucson, said he had orders to respond to Mr. Fitzgerald's requests for information (1) only if they are in writing; and (2) only if they are transmitted through formal channels, which would be from SAFFM to AFCVAE; AFCVAE to AFDCS or equivalent; DCS to MAJCOM or equivalent; MAJCOM Hq to MAJCOM/DCS; MAJCOM/DCS to appropriate sub-element; and from that sub-element on down the line ad infinitum. The reverse order of progression, with delays for "review" at every level, would apply to any responsive or non-responsive reply.

Lt Col Hird said he got his instructions from the AF Contract Management Division Commander's office. General Stukel, the Commander, admitted to Mr. Fitzgerald yesterday morning that he got the instructions from Generals Marsh, Bond, and Dever at Air Force Systems Command Headquarters.

The AFSC Commander et al appear to be ignorant of the fact that Mr. Fitzgerald's functional responsibilities and his authority to discharge them are the subject of a contractual agreement between the Air Force and Mr. Fitzgerald, formally approved and placed in effect by order of the United States District Court, and still subject to the Court's review and further judgment in the matter of how the parties carry our their ends of the contract. As I understand it, this latter precaution was instituted on the Court's initiative when it declined to acquiesce in dismissal of its earlier finding that the Air Force/Air Force officials had been dealing in bad faith.

If Mr. Fitzgerald's constructive efforts continue to be hindered, obstructed, or wholly sabotaged by the bureaucracy, then my job becomes a total waste of my time and of the taxpayers' money. This is not acceptable to me, and I am sure the taxpayers would not like it.

I suggest that the simplest and most direct way to rectify this continuing, unfortunate situation, and to get on with our business and reduce the waste of public funds, is to remind the entire Air Force command structure that the Secretary of the Air Force is the head of the department with the primary authority/responsibility in all Air Force matters other than actual military operations. This would be done best by means of a memorandum from the Secretary to the Chief of Staff requiring that he issue to the Air Staff et al a directive that they must be fully and expeditiously responsive to requirements generated by the Secretary, the Under Secretary, Assistant Secretaries and equivalents, and the respective Secretariat level deputies. I request that you concur in this proposal. With your agreement we will prepare an appropriate memorandum for Secretary Orr to send to the Chief of Staff.

Colin D Parfitt
COLIN D. PARFITT
Asst for Financial Systems

Copy to:
Mr. Fitzgerald

Typed 9 May 1983

DEPARTMENT OF DEFENSE · UNITED STATES OF AMERICA

DEPARTMENT OF THE AIR FORCE
WASHINGTON, D.C. 20330

OFFICE OF THE SECRETARY

MEMORANDUM FOR THE CHIEF OF STAFF

The immediate staff of the Secretary of the Air Force is quite small relative to our responsibilities. I intend to keep my staff small if I can. However, in order to be successful with a small staff, I need the full cooperation and assistance of the Air Staff and the commands.

Specifically, I want to make sure that my assistants and their deputies are able to task the Air Staff and commands for assistance they need to discharge satisfactorily the duties of their offices. They need direct, timely access to information and prompt responses to inquiries and assignments.

Please rescind immediately any instructions, written or verbal, which state or imply that my assistants and their deputies are not to receive information directly from the source, or that forwarding of factual information is to be delayed pending staffing or coordination.

I would greatly appreciate your putting these requirements in the form of an Operational Order so that my request is conveyed authoritatively.

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

6 June 1984

TRIP REPORT - PRATT & WHITNEY, W. PALM BEACH - 1-3 June 1984

SUBJECT: Provision of Information/Documentation by the AFPRO at Pratt & Whitney

On our arrival at the AFPRO, Mr. Fitzgerald, Mr. Ririe, and the undersigned first met with LCol Calabrese and J. Moyes. LCol Calabrese was acting as AFPRO during the absence on TDY of Col Roberts, J. Moyes is Chief Administrative Contract Officer in the AFPRO.

Immediately following our respective salutations, LCol Calabrese informed us that the AFPRO personnel had received orders to provide no documentation of any kind directly to us, and that any documents we received were to be released only through formal channels from the AFPRO to AFCMD for their review and consideration, to AFSC for their review and consideration, to AF/RDC for their review and consideration, etc.

Following a somewhat lengthy introductory discussion with the AFPRO personnel, Mr. Fitzgerald telephoned the Secretariat to obtain assistance in surmounting the obstacle placed in our way by the AFPRO personnel in denying us hard-copy documentation of such information as we thought necessary to have.

Upon our arrival at the plant the following morning, Friday, 3 June 1983, we met with Major Gerald George and J. Moyes. Major George was now the acting AFPRO in lieu of LCol Calabrese because the latter had departed PCS. Mr. Fitzgerald inquired of them as to whether or not they had received any change in the instructions from Col Englebeck concerning the non-provision of documentation to us. Major George said that Col Englebeck had called him and had changed the previous instructions so that now they could provide us with documentation that we requested. J. Moyes confirmed that and said he would now start assembling all documentation we had asked for the previous day and any further documentation we requested as our discussions proceeded.

At the close of our dealings with the AFPRO personnel and with Mr. George Spanton of the DCAA Audit Office, who had previously joined us at Mr. Moyes invitation, Mr. Fitzgerald asked both Major George and Mr. Moyes if they had ever known a case of an official Air Force visitor to the AFPRO from higher headquarters being denied any documentation connected with information he had requested during his visit. Major George mentally stumbled around and addressed other matters at random for several minutes apparently trying to evade a direct response. Finally, when the same question was put to him for the fifth or sixth successive time, he said that he had no knowledge of any similar event occurring in his previous experience. At this point, J. Moyes also stated that he had never previously encountered a similar situation during his experience.

Colin D. Parfitt

COLIN D. PARFITT

AF/RDC Coord

AF/LEY Sig

Maj Sawaya LEYE 79179 MS

Visit of Mr. Fitzgerald (SAF/FMM) to OC-ALC, 24-27 April 1983

1. Mr. A. Ernest Fitzgerald, Management Systems Deputy for the Assistant, SAF/FMM, visited OC-ALC 24-27 April 1983. Stated purpose of this visit was to discuss spare parts competitive acquisition. During the course of the visit, Mr. Fitzgerald made numerous requests for information or data to be provided subsequent to his visit. A reply was sent from AF/LE on 29 Jun 83 (Tab 2). AFLC/CS provided additional data (Tab 3) which was received after the basic reply was forwarded. Tab 1 transmits the additional data to Mr. Fitzgerald.

2. Data is non-controversial and consists of letters from Bendix and Colt industries to their suppliers. The letters detail data rights reserved to the prime contractor.

RECOMMENDATION

3. AF/LEY sign the proposed memorandum at Tab 1.

3 Tabs
1. Proposed Memo w/atch
2. AF/LE memo, 29 Jun 83
3. AFLC/CS Ltr, 18 Jun 83

MEMORANDUM FOR SAF/FMM

SUBJECT: Visit of Mr. A. Ernest Fitzgerald to OC-ALC, 24-27 April 1983 (AF/LE memo 29 June 1983) - INFORMATION MEMORANDUM

During Mr. Fitzgerald's visit to OC-ALC he made several requests for specific data. Most of the data was provided in referenced AF/LE memo. Additional data was provided subsequent to our previous memo and is attached.

2 Atch
1. Bendix Ltr, 6 May 1983
2. Colt Industries Ltr, undated

23 JUN 83

STAFF SUMMARY SHEET

	TO	ACTION	SIGNATURE (Surname), GRADE AND DATE		TO	ACTION	SIGNATURE (Surname) GRADE AND DATE
1	AF/LE	Appr	24/6	6			
2	AF/RD	Coord	27/6	7			
3	AF/CC	Appr	29/6/83	8			
4	AF/LE	Sig	29/6	9			
5				10			

SURNAME OF ACTION OFFICER AND GRADE	SYMBOL	PHONE	TYPIST'S INIT	SUSPENSE DATE
Lt Col Tattini	LEYE	70311	MS	

SUBJECT
Visit of Mr. Fitzgerald (SAF/FMM) to OC-ALC, 24-27 April 1983

DATE 23 JUN 1983

SUMMARY

1. Mr. A. Ernest Fitzgerald, Management Systems Deputy for the Assistant, SAF/FMM, visited OC-ALC 24-27 April 1983. Stated purpose of this visit was to discuss spare parts competitive acquisition. During the course of the visit, Mr. Fitzgerald made numerous requests for information or data to be provided subsequent to his visit.

2. Responses to Mr. Fitzgerald's requests were assembled by OC-ALC and are included as attachment 1 to our proposed memo at Tab 1. All data provided by OC-ALC has been reviewed by HQ AFLC (Tab 2) and the appropriate Air Staff Directorates. All OC-ALC responses are consistent with Air Force policy and provide no new information. We see no reason for not providing this package to Mr. Fitzgerald.

RECOMMENDATION

3. AF/LE sign and AF/CVA approve the proposed memorandum at Tab 1.

Gordon Masterson
GORDON P. MASTERSON
Brigadier General, USAF
Director, Maintenance and Supply

2 Tabs
1. Proposed Memo w/atch
2. AFLC/CS Ltr, 26 May 83

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE LOGISTICS COMMAND
WRIGHT-PATTERSON AFB OHIO 45433

AF/RDX
DIRECTOR........
DEPUTY..........
EXEC............
SEC.............
SEC.............

26 MAY 1983

REPLY TO ATTN OF: CS

SUBJECT: Mr. A. Ernest Fitzgerald, Management Systems Deputy for the Assistant SAF/FMM, Visit to OC-ALC on 24-27 April 1983

TO: HQ USAF/RD

While at OC-ALC, Mr. Fitzgerald made numerous requests for data/information which was to be provided subsequent to his visit. The attached OC-ALC response to those requests is forwarded for transmittal to SAF/FMM.

FOR THE COMMANDER

Charles M. Causland
CHARLES McCAUSLAND
Major General, USAF
Chief of Staff

1 Atch
OC-ALC/CV Ltr, 13 May 1983
W/Atch

RDX

25 Jun 8?

RICHARD E. MERKLING 24 JUN 1983
Lieutenant General, USAF
DCS/Logistics & Engineering

AF/LE Appr
AF/RD Coord
AF/LE Sign
AF/CC Appr

Lt Col Tattini LEYE 70311 HS

Visit of Mr. Fitzgerald (SAF/FMI) to OC-ALC, 24-27 April 1983 23 JUN 1983

1. Mr. A. Ernest Fitzgerald, Management Systems Deputy for the Assistant, SAF/FM, visited OC-ALC 24-27 April 1983. Stated purpose of this visit was to discuss spare parts competitive acquisition. During the course of the visit, Mr. Fitzgerald made numerous requests for information or data to be provided subsequent to his visit.

2. Response to Mr. Fitzgerald's requests were assembled by OC-ALC and are included as attachment 1 to our proposed memo at Tab 1. All data provided by OC-ALC has been reviewed by HQ AFLC (Tab 2) and the appropriate Air Staff Directorates. All OC-ALC responses are consistent with Air Force policy and provide no new information. We see no reason for not providing this package to Mr. Fitzgerald.

RECOMMENDATION

3. AF/LE sign and AF/CVA approve the proposed memorandum at Tab 1.

GORDON P. MASTERSON
[illegible] USAF
Director, Maintenance and Supply

2 Tabs
1. Proposed Memo w/ Atch
2. AFLC/CS ltr 26 May 83

RDC LEYE RDCP RDCL LEX-I

~~proprietary financial data should~~ such w/ Note 18 U.S.C.

INCORPORATED

We have no independent knowledge that this file contains proprietary information. You may, however, wish to inform the recipient of these documents that they may contain proprietary information, the disclosure of which outside the Government is a violation of 18 USC 1905.

RDC

W/ GC

6564

LEYE / Lt Col Tattini / 70311 / 20 June 83 / hs /

MEMORANDUM FOR SAF/FMI

SUBJECT: Visit of Mr. A. Ernest Fitzgerald to OC-ALC, 24-27 April 1983 - INFORMATION MEMORANDUM

During Mr. Fitzgerald's visit to OC-ALC he made several requests for specific data. This data is provided at Attachment 1. In order to assist in your use of this data, we have addressed each question separately and included the specific response and/or data requested. This document may contain proprietary information the disclosure of which outside the U S. Government is a violation of 18 U.S.C. 1905. We will be pleased to review and comment on the status of any passages you would like to release.

1 Atch
Questions and Responses/Data

MEMORANDUM FOR SAF/FMM

SUBJECT: Visit of Mr. A. Ernest Fitzgerald to OC-ALC,
24-27 April 1983 - INFORMATION MEMORANDUM

During Mr. Fitzgerald's visit to OC-ALC he made several requests for specific data. This data is provided at Attachment 1. In order to assist in your use of this data, we have addressed each question separately and included the specific response and/or data requested.

1 Atch
Questions and Responses/Data

Lt Col Tattini/70311/LEYE/6-8-83/M

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS OKLAHOMA CITY AIR LOGISTICS CENTER (AFLC)
TINKER AIR FORCE BASE, OKLAHOMA 73145

13 MAY 1983

REPLY TO ATTN OF: CV

SUBJECT: Mr. A. Ernest Fitzgerald, Management Systems Deputy for the Assistant SAF/FMM, Visit to OC-ALC on 24-27 Apr 83

TO: HQ AFLC/CS

1. The data regarding Mr. Fitzgerald's questions and/or requests are provided for your information/approval and subsequent transmittal to SAF/FMM as appropriate. In the event additional information is desired, please contact the ALC focal point, Ms. Ruth Vincent, OC-ALC/XRX, Autovon 735-2167.

2. In order to assist in your review, we have addressed each question separately and include the specific response and/or data requested.

Walter H. Poore

WALTER H. POORE
Brigadier General, USAF
Vice Commander

1 Atch
Questions and Responses or Data (15)

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE LOGISTICS COMMAND
WRIGHT-PATTERSON AIR FORCE BASE, OHIO 45433

18 JUN 1983

REPLY TO ATTN OF: CS

SUBJECT: Visit to OC-ALC by Mr. Ernest Fitzgerald, SAF/FMM, on 24-27 April 1983

TO: HQ USAF/RD

While at OC-ALC, Mr. Fitzgerald requested copies of letters from original equipment manufacturer which applied pressure on vendors not to sell direct to the government. The attached OC-ALC response to that request is forwarded for transmittal to SAF/FMM. The letters provided will supplement the original OC-ALC response which was forwarded to you as an attachment to an AFLC/CV letter dated 26 May 1983.

FOR THE COMMANDER

Charles McCausland

CHARLES McCAUSLAND
Major General, USAF
Chief of Staff

1 Atch
OC-ALC/CC Ltr, 8 Jun 1983, w/Atch

AFLC - Lifeline of the Aerospace Team

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS OKLAHOMA CITY AIR LOGISTICS CENTER (AFLC)
TINKER AIR FORCE BASE, OKLAHOMA 73145

8 JUN 1983

REPLY TO ATTN OF: CC

SUBJECT: Visit to OC-ALC by Mr. Ernest Fitzgerald, SAF/FMM, on 24-27 Apr 1983 (OC-ALC/CV Ltr, 13 May 1983)

TO: ~~AFLC/CS~~ CM 13 June 83

1. During Mr. Fitzgerald's recent visit to OC-ALC, he requested copies of letters from OEM applying pressure on vendors not to quote direct to the Government.

2. The attached copies of recent letters, issued by Bendix and Colt Industries, are provided for your information and subsequent transmittal to SAF/FMM as appropriate.

J E Light Jr
JAMES E. LIGHT, JR.
Major General, USAF
Commander

2 Atchs
1. Bendix Ltr, 6 May 1983
2. Colt Industries Ltr, undated

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS OKLAHOMA CITY AIR LOGISTICS CENTER (AFLC)
TINKER AIR FORCE BASE, OKLAHOMA 73145

REPLY TO ATTN OF: CR

1 June 1983

SUBJECT: Additional Information for Mr Fitzgerald

TO: XR

1. During Mr Fitzgerald's recent visit, he requested copies of letters from OEM applying pressure on vendors not to quote direct to the Government.

2. Attached are copies of recent letters issued by Bendix and Colt Industries. These letters are the strongest we have encountered to date. Suggest you consider forwarding to Mr Fitzgerald.

John W Schultz
JOHN W. SCHULTZ, Chief
Competition Advocate Office

2 Atch
1. Bendix Ltr, 6 May 1983
2. Colt Industries Ltr, Undated

Colt Industries

Chandler Evans Inc
Control Systems Division
Charter Oak Boulevard
West Hartford, Conn. 06101
203/236-0651

Re: Unauthorized Use or Disclosure
of CECO Proprietary Information

Dear Sir:

Recently there have been violations of our contract Terms and Conditions by vendors. Specifically this refers to the use and the confidentiality of drawings, specifications, etc. supplied by Chandler Evans. We understand that parts reported to have been made to CECO specifications have been offered for sale to others. We consider this a serious breech of our rights under our contracts, by some of our vendors.

The pertinent Terms and Conditions of your contracts with CECO are extracted for your information. We urge you to re-read them. If you have any questions as to their intent or meaning, please contact the writer. If not, please have an officer of your company sign and return this document.

> "Seller shall keep confidential all drawings, specifications and other data furnished by Buyer and shall not divulge, export from its own country, or use, directly or indirectly, such drawings, specifications or data to or for the benefit of any other party without obtaining Buyers' prior written consent. Except as required for the efficient performance of this order, Seller shall not make copies, or permit copies to be made without the prior written consent of Buyer. If consent is given for any reproduction, appropriate notice approved by Buyer shall be provided thereon. This provision shall not apply to information in the public domain otherwise than as a result of a breach of this provision, nor shall it limit any rights the Government may have in such drawings, specifications or other data."

Also, please note the following statement which is placed on every applicable Purchase Order:

> "Prints, Specifications, Data, etc. supplied pursuant to this or other CECO orders is solely for the use of the vendor in meeting the requirements of this or other CECO orders. No other use, including, but not limited to production for other parties, is permitted."

A few of the suppliers who have contacted us have advised that a prospective purchaser of such CECO parts or components has supplied or offered to supply drawings and/or specifications for the parts or components they seek to buy. It may be that the U.S. Government and/or Colt restrictive legends have been deleted from such documents. Under these circumstances, there exists one or more improprieties in the possession, use, or chain of possession or use, of such documents. No person, firm, corporation, foreign government or any other entity may properly purchase CECO parts and components from such documents, and neither you nor any of your competitors may affirmatively respond to a request to quote, manufacture or sell from such documents without being involved in such impropriety.

In short, you must not use CECO drawings or specifications, nor any technical data or information obtained from or derived from such drawings or specifications, in the manufacture for or sale of CECO parts or components to any third parties. It follows, of course, that you are also not to sell to any third party any "surplus", "over-runs", or other inventory of such parts or components resulting from a contract you may have had with CECO or the U.S. Government.

Very truly yours,

A. C. Gaudette

A. C. Gaudette,
Director of Purchasing

ACG/bw

I have read the statements above, understand and will abide by our obligations.

____

____
Title

Business Week December 19, 1983

Editorials

THE EDUCATION OF MARTIN FELDSTEIN

L ate reports from the Martin Feldstein front suggest that he may be coming to understand, however tardily, that his job is to advise the President privately—not to pro- ote his own opinions publicly. If this is the case, he may ave his post as chairman of the Council of Economic Advis- rs. The issue does not center on Feldstein personally, or ven on his views of the economy, but on his blindness to the cknowledged rules of the game when working for the Presi- ent. Like any CEA chairman, Feldstein owes the President his est judgments on economic matters, and he is entitled, even bligated, to argue his case strongly. But he should confine is arguments to the councils of government. Once a decision as been taken, he owes the President private and public upport. If his conscience forbids this, he should resign. If he oes on speaking out against Administration policy but does not resign, the President should fire him.

The major goal of Feldstein's one-man crusade was to ensure that the Administration will mount a serious follow-up effort when it again proposes a contingency tax increase in the fiscal 1985 budget. Treasury Secretary Donald T. Regan and some White House advisers think that talk of tax boosts, even contingency ones, in an election year is not smart politics, and they want to bury further moves to raise revenues until 1985. But Feldstein's contention that waiting so long entails serious risks cannot be simply waved away.

Holding off until after the election means no action before the late spring or early summer of 1985, at best. The present economic expansion will then be nearing the end of its third year and by mid-1985 may be looking a bit down-at-the-heels. The leading indicators might even be pointing down. And just as during the recent recession, it would again be the wrong time to take serious action to cut the deficits.

Yet it would be dangerous to allow the economy to slide into another recession without such action. The way out is to act in 1984. The Administration's distaste for election-year spending cuts and tax hikes is understandable. But the eco- omic case for facing up to the deficit before the election annot be ignored.

DEPARTMENT OF THE AIR FORCE
AF PLANT REPRESENTATIVE OFC, IOLAA, DET 481 AF CONTRACT MGT DIV
HUGHES MISSILE SYSTEMS GROUP, 8433 FALLBROOK AVE
CANOGA PARK, CA 91304

DATE 27 Jan 8

MEMORANDUM FOR: Mr. A. Ernest Fitzgerald
Dr. Thomas S. Amlie

You would do well to follow the accompanying admonitions. Every organization needs people such as yourselves who investigate a situation from a critical perspective and are not afraid to voice unpopular views. But your seemingly present practice of a direct conduit to the newspapers has eroded your effectiveness and destroyed your credibility. You have allowed yourselves to become little more than born again 19th century muckrakers, which is a disservice to the Air Force and the Nation. We need to re-arm America. We need to spend our defense dollars prudently. We need whistle blowers and watch dogs who keep internal vigil and help make needed changes from within. We don't need internal detractors who add more fuel to the pacifist anti-defense movement by going external with all their information. The choice is yours. You can change it around. And please remember there are Eternal Principles and Laws which govern the affairs of man such as the Law of Harvest, "as ye sow so shall ye reap," or Newton's second law "for every action there is an opposite and equal reaction."

Sincerely,

Note: These are my personal views not written in the capacity of my position. My rank and duty title included for identification purposes only.

HENRY E. KETCHAM, Major, USAF
Chief, Canoga Park Division

LOYALTY

IF YOU WORK FOR A MAN, in Heaven's name WORK for him; if he pays you wages which supply you bread and butter, WORK for him; speak well of him; stand by him and stand by the institution that he represents. If put to a pinch, an ounce of loyalty is worth a pound of cleverness. If you must vilify, condemn, and eternally disparage—resign your position, and when you are outside, damn to your heart's content; but as long as you are part of the institution, do not condemn it. If you do that, you are loosening the tendrils that are holding you to the institution, and at the first high wind that comes along, you will be uprooted and blown away, and probably you will never know the reason why.

. . . ELBERT HUBBARD

NUMBER 3, VOLUME XXXI, 8 FEBRU

TIG BRIEF
The INSPECTOR GENERAL

ATch 11-F

COORDINATION RECORD

SOURCE
SAF/LLL

FILE NO.

Attached information is forwarded for review and comments in accordance with guidelines on reverse side. Questions should be directed to the Air Force Office for Security Review, (SAF/PAS) extension 79542 or 73222

DESCRIPTION CYS PP

Witness Statement - Mr. A. Ernest Fitzgerald, SAF/FMM, Senate Judiciary Committee, Jun 19 & 27, 1984, re Reliability & Availability of Agency Information.

BRACKET ANY CLASSIFIED MATERIAL IN BLACK PENCIL.

SAF/FM 6/13 6/14 1200
SAF/[illegible] 6/13 6/14 1200
SAF/AL 6/13 6/14 1200

COORDINATION	DATE OUT	SUSPENSE	DATE BACK	PAS USE
SAF/PA	6/13	6/14 1200		
AF/ACB	6/13	6/14 1200		
AF/RDC	6/13	6/14 1200		
AF/LE	6/13	6/14 1200		
→ SAF/GC	6/13	6/14 1200		

REVIEWER LT COL BURNS

DATE RECEIVED 6/13

FOR AIR STAFF/SECRETARIAT COORDINATION

TO: Office for Security Review (SAF/PAS)

We have reviewed the attached information and our recommendation for public release is as follows:

☐ No objection

☐ No objection subject to amendments for security and policy as indicated by brackets [ ] in black pencil. Editorial amendments are lined through once with black pencil (Do not use Brackets). Substitute language will be entered in black pencil. (see guidelines on reverse side)

☐ Objection. Amendments to permit publication are impractical. Reasons are stated below.

Mr. Fitzgerald's comments concerning the agreement between him and the Air Force which settled his lawsuit are correct. The statement does not raise any legal issues, and this office is not in a position to confirm or dispute the many factual statements describing events during the last several years.

On its face the statement obviously presents Mr. Fitzgerald's personal experiences and his side of controversial events, some of which will probably be disputed by the other persons involved. The disagreements are likely to be over factual rather than policy matters. If factual disputes cannot be resolved by the various persons involved, it would seem appropriate for Mr. Fitzgerald to appear before the committee in a duty status as an Air Force employee, but not in the role of an official Air Force spokesman who would be expected to present institutional Air Force views, positions, or descriptions of events.

Only the statement (not the attachments) was reviewed.

DATE	TYPE NAME, (Title, Organization, and Telephone Number)	SIGNATURE
14Jun84	Walter A. Willson Assistant General Counsel (SAF/GCA, 54975)	Walter A. Willson

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PA)

ATTN: DFOISR (THRU)

DATE

The attached material is fowarded with recommendation for public release, as amended, under the provisions of DOD Directive 5230.9. I am authorized to make this recommendation in behalf of the Secretary of the Air Force.

A reply is requested by:

ATCH

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ATCh 12

FORM 0-201 PREVIOUS EDITION IS OBSOLETE.

COORDINATION RECORD

SOURCE SAF/LLL	CASE NO 84-0717-T FILE NO

Attached information is forwarded for review and comments in accordance with guidelines on reverse side. Questions should be directed to the Air Force Office for Security Review. (SAF/PAS) extension 79542 or 73222

DESCRIPTION CYS PP

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SAF/AL 6/13 6/14 1200

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AF/LE	6/13	6/14 1200		
SAF/GC	6/13	6/14 1200		

REVIEWER LT COL BURNS

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TO: Office for Security Review (SAF/PAS)

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DATE	TYPE NAME, *(Title, Organization, and Telephone Number)*	*SIGNATURE*

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PA)

ATTN:	DATE
DFOISR (THRU)	

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AF/RDC	6/13	6/14 1200		
→ AF/LE	6/13	6/14 1200		
SAF/GC	6/13	6/14 1200		

REVIEWER LT COL BURNS

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☒ Objection XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX Reasons are stated below.

Errors in fact.

Page 26. Delete the word "sanitized". All information in our file indicates there were no alterations made to the referenced letters. Attachment 10 provided by Mr Fitzgerald appears to contain complete copies of the referenced letters.

Page 26. Delete as indicated. The AF/LE office that orginated the transmittal memorandum has no record of either a verbal or written follow-up or request to expedite this request for information.

DATE	TYPE NAME, (Title, Organization, and Telephone Number)	SIGNATURE
11 JUN 84	CLARO M. HERNANDEZ, COL, USAF Ch, Acquisition Logistics & [illegible] Div Maintenance & Supply, DCS/L&E	

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PA)

ATTN:

DFOISR (THRU)

DATE

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COORDINATION RECORD

SOURCE
SAF/LLL

CASE NO. 84-0712-T
FILE NO.

Attached information is forwarded for review and comments in accordance with guidelines on reverse side. Questions should be directed to the Air Force Office for Security Review, (SAF/PAS) extension 79542 or 73222

DESCRIPTION CYS PP

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SAF/AL 6/13 6/14 1200

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AF/RDC	6/13	6/14 1200		
AF/LE	6/13	6/14 1200		
SAF/GC	6/13	6/14 1200		

REVIEWER LT COL BURNS
DATE RECEIVED 6/13

FOR AIR STAFF/SECRETARIAT COORDINATION

TO: Office for Security Review (SAF/PAS)

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☒ Objection. Amendments to permit publication are impractical. Reasons are stated below

This statement appears to reflect the opinions and perceptions of an individual rather than reflecting an Air Force position.

DATE	TYPE NAME, (Title, Organization, and Telephone Number)	SIGNATURE
14 June 1984	KAREN R. KEESLING, Principal Deputy Asst Sec (MRA&I), 71032 SAF/MID	Karen R. Keesling

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PA)

ATTN:
DFOISR (THRU)

DATE

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A reply is requested by

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SOURCE
SAF/LLL

FILE NO

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AF/LE	6/13	6/14 1200		
SAF/GC	6/13	6/14 1200		

REVIEWER LT COL BURNS

DATE RECEIVED 6/13

FOR AIR STAFF/SECRETARIAT COORDINATION

TO: Office for Security Review (SAF/PAS)

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☒ Not an Air Force position.

This statement is a personal one if based on nothing more than the count of "I" usage throughout. One does not find the "we" in this proposed Air Force position.

While we cannot address the accuracy of the technical material provided, or make a final judgement due to the complete lack of referenced attachments, the propriety of much of the verbage is highly questionable.

If cleared, this should be identified as a personal statement, not an Air Force statement.

DATE	TYPE NAME, (Title, Organization, and Telephone Number)	SIGNATURE
14 June 1984	THOMAS A. MAYPOLE, Colonel, USAF Asst Dir of Public Affairs, 74259	Thomas A. Maypole

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PA)

ATTN:
DFOISR (THRU)

DATE

The attached material is fowarded with recommendation for public release, as amended, under the provisions of DOD Directive 5230.9. I am authorized to make this recommendation in behalf of the Secretary of the Air Force.

A reply is requested by:

COORDINATION RECORD

Attached information is forwarded for review and comments in accordance with guidelines on reverse side. Questions should be directed to the Air Force Office for Security Review, (SAF/PAS) extension 79542 or 73222

SOURCE
SAF/LLL

CASE NO 84-0717-T
FILE NO.

DESCRIPTION CYS PP
Witness Statement - Mr. A. Ernest Fitzgerald, SAF/FMM, Senate Judiciary Committee, Jun 19 & 27, 1984, re Reliability & Availability of Agency Information. BRACKET ANY CLASSIFIED MATERIAL IN BLACK PENCIL.

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AF/RDC	6/13	6/14 1200		
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REVIEWER LT COL BURNS

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FOR AIR STAFF/SECRETARIAT COORDINATION

TO: Office for Security Review (SAF/PAS)

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SEE ATTACHED LETTER

ACM

DATE 14 Jun 84

TYPE NAME, (Title, Organization, and Telephone Number)

SIGNATURE

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PA)

ATTN:
DFOISR (THRU)

DATE

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ATCH

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COORDINATION RECORD	SOURCE SAF/LLL
	CASE NO 84-0717-T FILE NO

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SAF/AL 6/13 6/14 1200

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REVIEWER LT COL BURNS

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SEE Attached Memo

DATE	TYPE NAME (Title, Organization and Telephone Number)	SIGNATURE
Jun 84	IRA L. KEMP, Associate Director Directorate of Contracting & Mfg Pol - 57810	

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PA)

ATTN:
DFOISR (THRU)

DATE

The attached material is fowarded with recommendation for public release, as amended, under the provisions of DOD Directive 5230.9. I am authorized to make this recommendation in behalf of the Secretary of the Air Force.

A reply is requested by

ATCH

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DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

30 January 1984

Major Henry Ketcham
AF Plant Representative Office
Hughes Missile Systems Group
8433 Fall Brook Avenue
Canoga Park, CA 91304

Dear Major Ketcham:

I have your note of January 27, 1984. I take it that your point is that one should be loyal to whomever pays his salary. I quite agree with you. The taxpayers pay my salary, your salary, and the salaries of all the people at Hughes. If I come to the decision that I am being disloyal to the taxpayers, I will, in fact, quit.

To be more specific, I do not work for Hughes nor the Air Staff. I work for Secretary Verne Orr. He has expressed outrage on several occasions at the prices we pay for things and at the awful conditions at the Hughes Tucson plant.

The goings-on at the Tucson plant are truly flagitious. The facts were leaked by people in the plant (both ~~at~~ Hughes and USAF) to the Arizona Star, long before Mr. Fitzgerald and I knew what was going on. In point of fact, everything that newspaper published they dug up for themselves.

I tend to agree with you that news such as this might make the taxpayer a little unhappy about the defense budget but would ask "Who is more to blame, the newspaper or the USAF officials who have looked the other way for so many years?" Many of these clowns have looked the other way simply to enable them to get a lucrative job at Hughes after retirement. To each his own.

Sincerely,

Thomas S. Amlie

THOMAS S. AMLIE
Asst for Technical Systems

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

1 February 1984

Major Henry E. Ketcham
AF Plant Representative
Hughes Missile Systems Group
8433 Fallbrook Ave
Canoga Park, CA 91304

Hank,

Reference is made to your notes for Messrs. Fitzgerald and Amlie of SAF/FMM (Atch 1). What is a "... seemingly present practice of ..." supposed to mean?

Your rationale for describing your addressees as performing "... a disservice to the Air Force and the Nation ..." is fatally flawed.. Feldstein is a political appointee serving at the pleasure of the President. Fitzgerald and Amlie are merit system, tenured career civil servants with non-political responsibilities. Presumably in support of your opinions you cite, by implication, Elbert Hubbard: "If you work for a man ... if he pays you wages ..." (underscoring added). You appear to have lost sight of the fact that Fitzgerald and Amlie are both paid by the taxpayers through public monies in the hands of the U.S. Treasury. Also, you appear to have forgotten the "first commandment" in our code of ethics (Atch 2), viz:

> "I. Put loyalty to the highest moral principles and to country above loyalty to persons, party, or Government department."

The code was unanimously enacted by the Congress of the United States on June 27, 1980, and signed into law by the President on July 3, 1980 (PL 96-303).

I agree with your statements that "... We need to re-arm America. We need to spend our defense dollars prudently ..." I can assure you that you and Ernest Fitzgerald are also in complete agreement on those two points, and particularly the latter. However, I suggest for your consideration the notion that any present need to re-arm arose in greatest part from past imprudence in spending weapons systems acquisition funds; clear evidence of this is the painfully long history of excessive prices, faulty products and continual cost over-runs occurring at increasing rates almost across-the-board in weapons systems acquisition programs.

With respect to the general subjects of productivity improvement, cost control and cost reduction, these are among the explicitly stated responsibilities of Mr. Fitzgerald's job, and are among the areas over which he has authority to direct and to task the Air Staff and field activities. Regrettably, there seems to be as yet no perceptible current of change in the procurement community toward cost control and cost reduction despite SAF/FMM's efforts. In an attempt to correct another of your apparent misconceptions, please note that unsympathetic views attributable to SAF/FMM are generated by unreasonably high costs incurred by defense contractors, as a consequence of poor performance, and the seemingly supine acquiescence of our oversight personnel.

Quite clearly, you also have a serious misconception of "... the pacifist anti-defense movement ..." I am sure that the people to whom I believe your collective reference applies would oppose the same ideas and weapons that they oppose today even if our unit costs were to be halved or quartered and our total acquisition funds reduced in some degree. In fact, if we were to succeed notably well in achieving real unit cost reduction then that would, logically, inflame both the political and moral pacifists because we would be in a position to buy more of the weapons they oppose, and to do so at the same or lower levels of funding.

Reading it in the context of your note, I understand you to use your terminology "... born again ... muckrakers ..." in the most pejorative of senses. Item IX of the Code of Ethics may be appropos at this point, "Expose corruption wherever discovered." Lincoln Steffens (1866-1936) exposed corruption at high government levels in various American city governments. As I recollect, it was in fact corrupt governmental officials who coined the term "muck-raker" for purposes of misrepresentation in attempts to discredit the ethical and moral rectitude of Steffens' findings and disclosures. Doubtless they were following the established lawyers' precepts: When the facts favor you plead the facts; when the law favors you plead the law; when neither favors you attack your opponent personally.

I note the handwritten disclaimer on your memo. However, I note also that you used your official, letterhead stationery, and signed in your official titular mode. I find this interesting because I have heard and seen indications that the views you expressed are the understood, de facto policy of the Air Force procurement community. So, even though I disagree with you, I believe you have performed a useful service by stating these views openly.

Your willingness to speak out could be useful. It appears you have been somewhat misinformed, and it would be most helpful to us to learn how that came about. Also, if you will identify for us others who are laboring under the same misconceptions, our educational tasks will be eased greatly.

I look forward to hearing from you soon.

Colin D. Parfitt

Attachment

COLIN D. PARFITT
Asst for Finanacial Systems

cc: Mr. Fitzgerald

DEPARTMENT OF THE AIR FORCE
WASHINGTON, D.C. 20330

OFFICE OF THE SECRETARY

June 13, 1984
REF: SAF/PAS 84-0717-T

MEMORANDUM FOR SAF/AL Noted 14 Jun 84
SAF/MI
SAF/FM
SAF/PA
AF/ACB
AF/RDC
AF/LE
SAF/GC

SUBJECT: Witness Statement - Mr. A. Ernest Fitzgerald, SAF/FMM, Senate Judiciary Committee, June 19 & 27, 1984, re Reliability and Availability of Agency Information

Attached witness statement by Mr. A. Ernest Fitzgerald, SAF/FMM, is provided for your information coordination and/or comment. Mr. Fitzgerald is to testify as an Air Force witness before the Senate Judiciary Committee, Subcommittee on Administrative Practice & Procedure beginning on 19 June. The subcommittee has asked for copies of his statment on Friday, 15 June, therefore, your coordination/written comments are required by noon, Thursday, 14 June.

Attachments mentioned in the statement are not yet available for review, but they will be provided to you when available. Please call 73222 for pickup.

Hugh P. Burns

HUGH P. BURNS, JR., LT COL, USAF
Chief, Office for Security Review
Office of Public Affairs

1 Attachment
Witness Statement -
Mr. A. Ernest Fitzgerald

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330

REPLY TO ATTN OF: ACM 14 JUN 1984

SUBJECT: Witness Statement - Mr. A. Ernest Fitzgerald, SAF/FMM, Senate Judiciary Committee, 19 & 27 June 1984, re Reliability and Availability of Agency Information

TO: SAF/PA

1. The Directorate has reviewed the subject statement as requested in your letter of 13 June 1984. We did not have a copy of the lengthy attachments Mr. Fitzgerald intends to append to his basic statement, so our comments are in response to the 29 page draft statement provided by your office. Further, our comments are limited to those issues in the statement for which we are responsible, specifically paragraph 3 on page 7 and paragraph 2 on page 10. There may be other issues to which we should respond, but without the attachments to the statement we are unable to identify them with any precision.

2. In our view this statement represents Mr. Fitzgerald's perceived difficulties in obtaining data and as such, is not a balanced discussion of the many complex issues he raises. It does not present an Air Force position on those issues within our area of responsibility. Without considerable rework, we therefore cannot concur in its release as an Air Force position.

3. We believe it important to note that this Directorate has been diligent in our attempts to satisfy Mr. Fitzgerald's various requests for information. In point of fact, senior Air Force leadership has reaffirmed to us their support of our attempts to be responsive. Evidently Mr. Fitzgerald has experienced some difficulty in obtaining all the information he wants, but we would suggest there are several reasons for this situation. At times Mr. Fitzgerald has requested information from us that more appropriately should have been addressed to other functional staff agencies. While following established organizational relationships may add response time, in the final analysis it is generally more productive. Our responses to Mr. Fitzgerald have been sometimes further hindered by a lack of well defined requirements and a clear understanding of the intended uses of the data. And finally there have been the occasions when we both underestimated the time and difficulty in responding.

4. As one example, the situation described in the third paragraph of page 7 represented a misunderstanding of requirements. Mr. Fitzgerald first made direct contact with AFCMD. He then tasked this Directorate to provide equivalent unit cost (EUCO) reporting on a number of systems without providing background, formats or instructions. In response, AFSC developed and transmitted a set of formats to fulfill the requirement. However, these requirements did not match Mr. Fitzgerald's desires. The referenced meeting was held to clear up the misunderstanding. This was not an attempt to deny or delay information.

5. Page 10, second paragraph, discusses attempts to incorporate EUCO reporting in an unnamed Air Force regulation which we assume to be AFR 800-6, Program Control--Financial. In our view, the paragraph misrepresents the intent of Air Force actions. AFR 800-9, Manufacturing Management, is the present and correct vehicle for implementing EUCO reporting under MIL-STD-1567A, Work Measurement, policy and procedures. Inclusion of reporting related to MIL-STD-1567A in AFR 800-6, Program Control--Financial, which is currently being revised, would be duplicative and would be the incorrect functional series of directive documentation.

L. T. Baseman

L. T. BASEMAN
Associate Director
Directorate of Cost and
Management Analysis

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C.

14 June 1984

MEMORANDUM FOR SAF/PAS

SUBJECT: Witnesses Statement - Mr. A. Ernest Fitzgerald - INFORMATION MEMORANDUM

We have deep concern as to the proposed testimony of Mr. Fitzgerald. We believe it reflects a personal account not an organizational account of a series of actions. As such, we feel that it is inappropriate to categorize it as an Air Force statement and believe it requires rework to make it acceptable.

Specific comments concerning our interpretation of the events and facts in Mr. Fitzgerald's testimony are listed in Attachments 1 and 2.

IRA L. KEMP
Associate Director
D[illegible] [illegible]ting
& [illegible] Policy

2 Atch
1. AF/RDCM Comments
2. AF/RDCP Comments

Specific Comments: AF/RDCM

1. Attachments referenced are not available for review.

2. Page 2 - Incorrect statement. 93 forward sections of the IIR Maverick produced not missiles.

3. Pages 2 & 3 - Balance of paragraph. Because of the small quantities being bought inefficiently (NO EOQ) the bill of material cost (Hughes manufacturing and all subcontract cost and material cost) was $892,000. Substantial reductions have been realized as a result of higher quantities. The direct manufacturing hours at Hughes Tucson make up about 8% of the cost of the missile. It must emphasized that the statement made in his testimony concerning IIR Maverick hardware costs were under the Full Scale Development engineering phase of the program prior to production start and do not reflect production rate efficiencies.

4. Page 3 - Delete reference to General Driessnack. Decision to conduct Should Cost was included in the acquisition plan.

5. Page 3 - Last paragraph - Delete. The decision to conduct a review at Hughes was made by Gen Skantze, AF/RD, as a result of a program review presented on IIR Maverick. This program review showed the large number of programs at Hughes and he had concerns about the capacity of the facility. His tasking letter was transmitted on 6 Oct 1982.

6. Page 4 - First paragraph - Delete. The findings of the review was a subject of a temporary restraining order issued against the Air Force. The settlement of this issue prevents release of this information for the public record. SAF/GC must review this section to determine the Air Force liability in releasing this information for the record.

7. Pages 5 thru 9 - Delete. The attached more accurately defines the course of events concerning the data requested by SAF/FMM.

8. Page 11 - second paragraph - Delete last sentence. Collect of the data was not a simple tasks and in fact was a major undertaking. Who was apprehensive is a matter of conjecture on part of the writter.

9. Page 13 - First paragraph. We have no way to validate statement of Gorden Urguart. We recommend that CODSIA be consulted to ascertain their current position since Mr Urguart is no longer on the subject committee.

1 ATCH
EUCO History

BACKGROUND INFORMATION

1. 29 Mar 82 Mr. Hale, SAF/FM, memorandum for Mr. Fitzgerald, SAF/FMM. Summarized SAF/FMM tasking to review the effectiveness of Cost/Schedule Control Systems Criteria (C/SCSC). Tasked SAF/FMM to provide a target date by 15 Jul 82 for review completion.

2. 29 Mar 82 SAF/FM memorandum for Gen Driessnack, CSAF/CVA. Notification of the SAF/FMM study requesting full support from USAF, AFSC, AFLC, and field organizations.

3. 31 Mar 82 AFSC/AC message, 312105Z Mar 82 on SAF/FM's visit, 2 Apr 82. Sent to Gen Marsh, AFSC/CC, at CCAD, Corpus Cristi TX. Discussed SAF/FM's visit to personally request support for SAF/FMM's C/SCSC study and be briefed on AFSC's C/SCSC program since AFSC is the Air Force focal point for implementing C/SCSC policy.

4. 30 Apr 82 Memorandum from SAF/FMM to HQ AFSC/ACCI. Transmitted SAF/FMM's 9 Apr 82 memorandum to SAF/FM on his initial visits to HQ AFSC and ASD. Stated that AFSC/CC suggested looking at Maverick. SAF/FMM suggested looking at F-16 also. Wanted to compare a troublesome program to a good one. This was SAF/FMM's first discussion of going beyond C/SCSC ✓ into manufacturing activity.

5. 10 May 82 HQ AFSC/AC, memorandum for AFSC/CC. This memorandum and attachments described SAF/FMM's expressed interest in using work measurement data in an expanded application of the should-cost concept. SAF/FM was to explore getting the necessary data through AFPROs, etc.

6. 28 May 82 HQ AFSC/AC memorandum for AFSC/CC. This memorandum and attachments indicated SAF/FMM wanted to compare manufacturing costs for missiles to augment C/SCSC.

7. 15 Jun 82 SAF/FM memorandum for CSAF/CVA on SAF/FMM's appointment Management Systems Deputy. It provided his job description which includ authority to have direct access to information and authorized travel to visit Air Force field offices. This was distributed 17 Jun 82 by CSAF/C to HQ USAF/AC/PR/XOM/IG/MP/LE/RD.

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

March 29, 1982

MEMORANDUM FOR MR. A. E. FITZGERALD, SAF/FMM

SUBJECT: Review of Use of Cost/Schedule Control Systems Criteria (C/SCSC) and Related Program Control Systems in the Air Force

This memorandum is to confirm the tasking we have discussed orally for you to lead an Air Force review of the effectiveness of the Cost/Schedule Control Systems Criteria (C/SCSC) and other related program control reports reflected in DODI 7000.10 as a management tool in Air Force contract administration. As you know, the Secretary is increasingly concerned about cost growth in major weapon system acquisition and has requested that we examine whether our current management information and control systems are adequate. Thus, this review of the C/SCSC and related reports will respond directly to an issue of concern to the Secretary.

In developing the approach to this review, I would like you to address whether the system as currently configured provides adequate and timely information on potential contractor scheduled, production, cost, and technical performance deficiencies early enough to permit effective program management decision. I would like you also to address the effectiveness with which data from the C/SCSC and related reports are being utilized for contract management by the AFSC Contract Management Division and the AFPROs, as well as for overall program management within various program offices. Further, your review should address whether instructions in the use of C/SCSC and related reports are being given proper emphasis and priority in the various Air Force training and educational programs for contract and program management personnel.

This review is a substantial undertaking. It is consistent with the Secretary's desire that, while awaiting a final decision from the court concerning your new position, we make effective use of your talents and skills on problems of major importance to the Air Force. Moreover, C/SCSC was one of the major areas of responsibility in the new position which the Air Force has recommended to the court. Given the importance and magnitude of this project, you will require both immediate staff assistance and support from the Air Staff and the field. Therefore, effective immediately, I am assigning to you for purposes of this study, Dr. Duane Packard and Mr. Colin Parfitt. I have also sent the attached memorandum to the Vice Chief of Staff informing him of the intent of this study and requesting both Air Staff and field support for your effort.

As we have discussed, I envisage this program as a broad survey of the effectiveness of C/SCSC and related reports across the entire range of Air Force acquisition programs and contracts. In the course of the study, I envision that you will need to review the operation of C/SCSC and other related reporting systems both at Headquarters Systems Command and in the field at the program offices. You may also need to review the operational system with selected AFPROs and contractors.

Given the priority of my commitment to the Secretary to identify ways of strengthening cost control in our program management, I believe we should establish a target date for completion of this study of July 15, 1982. Depending on the outcome of the study, we may also wish to formulate recommendations to DOD for structural improvements to the C/SCSC as defined in the DOD Directive.

I wish to maintain a continuing involvement with the study as it progresses so I can give the Secretary periodic updates. I would like you to begin this effort with the development of a study plan which we can review together as soon as possible. Once the study is underway, I would like you to give me an update at least every ten days.

Russell D. Hale
RUSSELL D. HALE
Assistant Secretary of the Air Force
(Financial Management)

Atch
Cy SAFFM memo to
AF/CV

DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC 20330

OFFICE OF THE ASSISTANT SECRETARY

March 29, 1982

MEMORANDUM FOR THE VICE CHIEF OF STAFF, U.S. AIR FORCE

SUBJECT: Review of Use of Cost/Schedule Control Systems Criteria (C/SCSC) and Related Program Control Systems in the Air Force

As you know, the Secretary is increasingly concerned at the cost growth being experienced in many of our major acquisition systems. In reviewing this matter with him, I have suggested to him that it would be appropriate to review the effectiveness of the Cost/Schedule Control Systems Criteria (C/SCSC) and related program control reports as a management tool. With his concurrence, therefore, I have initiated a review of C/SCSC and related reports as currently being implemented in the Air Force. I have tasked Mr. A. Ernest Fitzgerald to lead this review and to formulate a report by July 15, 1982. He will be assisted in this project by Dr. Duane Packard and Mr. Colin Parfitt of my office. I request that you give Mr. Fitzgerald the full support of the Air Staff, AFSC, AFLC and other field organizations as required.

Russell D. Hale
RUSSELL D. HALE
Assistant Secretary of the Air Force
(Financial Management)

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AFSC ANDREWS AFB MD//AC//

CCAD CORPUS CHRISTI TX

UNCLAS

PASS TO GENERAL MARSH, COMMANDER AIR FORCE SYSTEMS COMMAND, ATTENDING JLC CONFERENCE

SUBJ: TALKING PAPER ON MR. HALE'S VISIT, 2 APR 82

1. MAIN THRUST: SAF/FM HAS ESTABLISHED A STUDY GROUP TO EVALUATE THE EFFECTIVENESS OF AIR FORCE C/SCSC ACTIVITIES. MR. HALE'S PERSONAL VISIT IS INTENDED TO ASSURE GENERAL MARSH'S UNDERSTANDING AND SUPPORT FOR THE STUDY.

2. DISCUSSION:

A. OBJECTIVES OF THE STUDY INCLUDE DETERMINING WHETHER:

(1) C/SCSC ASSURES TIMELY WARNING OF COST PROBLEMS TO ALL LEVELS OF MANAGEMENT;

(2) DATA IS BEING EFFECTIVELY USED;

(3) TRAINING PROGRAMS ARE ADEQUATE.

B. TEAM LEADERSHIP AND SCOPE: MR. ERNEST FITZGERALD IS THE TEAM LEADER. THE TEAM INTENDS TO VISIT ALL TYPES OF AFSC ORGANIZATIONS INVOLVED IN C/SCSC ACTIVITIES (E.G., COMPTROLLER, PROGRAM OFFICES, AFPROS). COMPLETION DATE FOR STUDY IS ANTICIPATED AS JULY 1982.

LT COL KAGAN/ACCI/5143/31 MAR 82
AKagan 31 Mar 82

ACC Dean

UNCLASSIFIED

02 UUUU ACCI 311345

C. HQ AFSC/ACC IS AIR FORCE FOCAL POINT FOR C/SCSC. MR. FITZGERALD AND HIS TEAM WILL BE BRIEFED BY ACC ON THE AIR FORCE C/SCSC PROGRAM. THIS BRIEFING IS SCHEDULED TO OCCUR IMMEDIATELY AFTER THE MEETING BETWEEN GENERAL MARSH AND MR. HALE.

I. BACKGROUND ON C/SCSC:

{1} THE C/SCSC IS INTENDED TO SERVE AS A STANDARD FOR MEASURING THE ADEQUACY OF CONTRACTOR MANAGEMENT CONTROL SYSTEMS. THE STANDARD RELATES TO FIVE AREAS OF MANAGEMENT CONTROL: ORGANIZATION OF WORK; PLANNING AND BUDGETING; COST ACCUMULATION; VARIANCE ANALYSIS; AND REVISIONS TO PLANS. C/SCSC DOES NOT REPRESENT A SPECIFIC MANAGEMENT SYSTEM NOR DOES IT PRESCRIBE SPECIFIC METHODS OF ORGANIZATION OR OPERATION. CONTRACTORS ARE FREE TO ORGANIZE IN THE MANNER BEST SUITED TO THEIR INDIVIDUAL ENVIRONMENTS AND MANAGEMENT PHILOSOPHIES AND MAY SELECT THE INTERNAL METHODS AND PROCEDURES OF THEIR CHOICE. HOWEVER, THESE METHODS AND PROCEDURES MUST RESULT IN AN INTEGRATED COST AND SCHEDULE SYSTEM. THE CRITERIA ALSO ESTABLISHES CERTAIN STANDARD DATA ELEMENTS INCLUDING THE CRITICALLY IMPORTANT "EARNED VALUE" ELEMENT, WHICH MUST EXIST AT THE WORKING LEVEL AND BE CAPABLE OF SUMMARIZATION THROUGH INTERMEDIATE LEVELS TO THE TOTAL CONTRACT LEVEL.

{2} IN-PLANT EVALUATIONS ARE CARRIED OUT BY GOVERNMENT TEAMS TO ESTABLISH SYSTEM ACCEPTABILITY. TO DATE, THE AIR FORCE HAS ACCEPTED 109 CONTRACTOR SYSTEMS. SUBSEQUENT TO SYSTEM ACCEPTANCE, SHORTER IN-PLANT EVALUATIONS ARE CONDUCTED WHEN NEW CONTRACTS ARE AWARDED. THE SUBSEQUENT APPLICATION REVIEWS ASSURE THAT THE ACCEPTED SYSTEMS ARE PROPERLY APPLIED TO THE NEW CONTRACTS. SINCE 1976, THE AIR FORCE HAS CONDUCTED 67 SUCH REVIEWS.

{3} C/SCSC IS APPLIED ONLY TO FLEXIBLY-PRICED CONTRACTS. THE PURPOSE OF C/SCSC IS TO ASSURE THAT CONTRACTORS HAVE EFFECTIVE AND INTEGRATED INTERNAL COST AND SCHEDULE CONTROLS; AND RELY ON THOSE CONTROLS FOR PROVISION OF RELIABLE COST AND SCHEDULE STATUS TO PROGRAM MANAGEMENT, BOTH CONTRACTOR AND GOVERNMENT. MONTHLY REPORTS ARE NORMALLY OBTAINED FROM C/SCSC-COMPLIANT SYSTEMS. THESE REPORTS CONTAIN COST AND SCHEDULE STATUS THAT IS SUMMARIZED FROM THE WORKING LEVEL.

(4) C/SCSC IS INDISPENSIBLE ON FLEXIBLY-PRICED CONTRACTS TO ASSURE RELIABLE COST AND SCHEDULE STATUS FOR ALL LEVELS/USERS BOTH CONTRACTOR AND GOVERNMENT. INFORMATION IS TIMELY (MONTHLY). WITHOUT C/SCSC, THERE WOULD BE NO BASIS TO ASSURE INTEGRATION AND RELIABILITY OF COST AND SCHEDULE DATA, AND DATA ELEMENTS BETWEEN CONTRACTORS WOULD NOT NECESSARILY BE COMPARABLE. IN ADDITION, AIR FORCE PROGRAM OFFICES WOULD EACH DEFINE THEIR OWN REQUIREMENTS THEREBY SUBJECTING CONTRACTORS WITH MULTIPLE PROGRAMS TO MULTIPLE AND NON-STANDARD REQUIREMENTS. C/SCSC PRECLUDES THIS MULTIPLICITY OF UNRELATABLE DATA AND ENSURES THAT INFORMATION IS NOT ONLY RELIABLE AND TIMELY, BUT CAN BE PROVIDED MONTHLY FOR GOOD MANAGEMENT DECISIONS AT ALL LEVELS.

(5) IN AIR FORCE SYSTEMS COMMAND, THRESHOLDS HAVE BEEN ESTABLISHED FOR FLEXIBLY-PRICED CONTRACTS FOR MANDATORY APPLICATION OF THE C/SCSC. THESE THRESHOLDS FOR PRIME CONTRACTS ARE $40 MILLION FOR R&D AND $160 MILLION FOR PRODUCTION. C/SCSC MUST BE APPLIED WHEN THESE THRESHOLDS ARE EXCEEDED. IN ADDITION, C/SCSC MAY BE APPLIED TO ANY FLEXIBLY-PRICED CONTRACT OF $10 MILLION OR GREATER. THESE THRESHOLDS WERE LAST CHANGED IN DECEMBER 1980. THEY WERE CHANGED AT THAT TIME DUE TO THE CUMULATIVE INFLATION SINCE 1976, WHEN CONTRACT THRESHOLDS WERE FIRST ESTABLISHED.

(6) C/SCSC AS A MANAGEMENT TOOL IS INDISPENSIBLE. RETROSPECTIVELY, IT PROVIDES MANAGERS AT ALL LEVELS THE REASONS FOR CURRENT COST AND SCHEDULE VARIANCES ALONG WITH THE BASIS FOR APPROPRIATE TREND INFORMATION. PROSPECTIVELY, C/SCSC-COMPLIANT SYSTEMS PROVIDE MANAGEMENT WITH ESTIMATES OF FINAL COST VARIANCES AND PROJECTED SCHEDULE COMPLETIONS. THIS ALLOWS MANAGEMENT AT ALL LEVELS TO IDENTIFY PROBLEMS FOR POSSIBLE CORRECTION OR PREVENTIVE ACTIONS. THE MX AND F-16 PROGRAM OFFICES ARE PRIME EXAMPLES OF WHERE DATA HAS BEEN EFFECTIVELY USED.

3. ACTION DESIRED: ASSURE MR. HALE THAT WE SHARE HIS CONCERNS AND OBJECTIVES, AND THAT WE WILL FULLY AND OPENLY SUPPORT THE STUDY.

Recd 5/4

DEPARTMENT OF THE AIR FORCE
OFFICE OF THE ASSISTANT SECRETARY

MEMORANDUM

30 April 1982

FOR LCOL KAGAN, AFSC/ACCI

FROM: A.E. FITZGERALD, SAF/FMM

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

Mr. Mitchell
Mr. Ririe
Mr. Farfitt
Dr. Packard

9 April 1982

MEMORANDUM FOR MR. HALE

SUBJECT: Program Control Survey

As a result of our initial visits to Air Force Systems Command (AFSC) Headquarters and to the Aeronautical Systems Division (ASD), I have decided to concentrate, though perhaps not exclusively, or the Maverick and F-16 programs.

During our visit to AFSC on 2 April 1982, General Marsh indicated that it might be helpful to him if we were to take a look at Maverick. As you know, the Maverick program is generally regarded as a troublesome one. On the other hand, the F-16 is generally viewed as a model of acquisition. Therefore, by looking at these two programs, we can cover the perceived spectrum of program management success.

Concentration on Maverick and F-16 will also make our travelling more efficient. Both system program offices are at Wright-Patterson AFB and the using command in both cases is the Tactical Air Command (TAC) with headquarters at Langley AFB.

It is already apparent that we need to improve the understanding, at least on the part of headquarters' staffs, of how to get needed cost visibility in contractor manufacturing activities without imposing burdensome, costly, and time-consuming accounting system changes on the contractors. As a means to improve understanding in this area, I should like to call on the Air Force Logistics Command (AFLC) to assist us.

Both Colin Farfitt and I have been favorably impressed with the practical understanding of factory cost accounting displayed by Ed Daley and Guy Infante at AFLC Hq. If there are no strong objections, I want to make arrangements immediately to have Guy Infante, who explains standard cost accounting extremely well, to assist us with a hands-on indoctrination of the survey team and interested observers at Warner-Robins Air Logistics Center.

I have already spoken to Mr. Infante and his supervisor, Mr. Ed Daley, about this proposal. They agreed that if approved by you and their headquarters, the indoctrination could prove useful in two ways. First, it will improve our survey teams practical understanding rapidly and at low cost. Second, it will help us to tell the story of how really useful AFLC's approach to standard cost accounting can be to higher level of management -- both internally and externally. We are long overdue in taking AFLC off the defensive in this regard. In my judgment, the general approach employed at AFLC offers the best approach for getting contractor manufacturing cost visibility in time to be of assistance during the tenure of current appointees.

After the planned Warner-Robins session, I should like to have our group visit TAC Headquarters at Langley, Virginia; General Dynamics and AF Plant Representatives Office (AFPRO) at Fort Worth, Texas; the Hughes plant and AFPRO in Tucson, Arizona; and possibly the Hughes engineering activities and resident government plant representatives on the west coast. We will, of course, work as closely as possible with the Air Staff, AFSC Hq, ASD Hq, and the system program offices.

As for the general division of responsibilities within the survey team, I have asked Duane Packard, who is already familiar with the panoply of reports and their flow, to concentrate on reporting per se. Since Colin Parfitt has great strength in cost accounting and related matters, I have asked him to concentrate on the content of the reports. Jim Ririe has volunteered to work with us -- which I welcome. My hope is that Jim can be of particular assistance in internal Air Force aspects of our project. In the past, we have found ourselves in awkward situations when we have asked contractors to adopt improved management practices when we do not employ them ourselves. I hope that Jim can help me identify such instances and then to either eliminate or reconcile any differences.

A. E. FITZGERALD
Deputy for Productivity Management

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE SYSTEMS COMMAND
ANDREWS AIR FORCE BASE, DC 20334

DATE 10 MAY 1982

MEMORANDUM FOR: CC (Gen Marsh) Thanks

Subj: Mr. Ernie Fitzgerald's Study of C/SCSC Effectiveness

Attached is a status report on Mr. Fitzgerald's study.

Wilma

ROBERT T. MARSH, General, USAF
Commander
17 MAY 1982 agree

1 Atch
ACCI Memo, 6 May 82

Stan Kagen will give you frequent readouts on how this is going. It's something I think warrants your close attention.

W

21 May
ACC - We should send copy of future reports to PM, and SD, and LtGen [illegible]
WV

CC
CV
CT
CVT ✓
CS
CSA ✓
CST

WILMA L. VAUGHT, Brig Gen, USAF
DCS/Comptroller

MEMORANDUM FOR: ACC
AC
IN TURN

6 May 82

Subj: Mr. Ernie Fitzgerald's Study of C/SCSC Effectiveness: Status Report as of 5 May 82

1. We received a copy of Mr. Fitzgerald's "workplan" on 5 May 82. (See 9 Apr 82 Memo for Mr. Hale, attached.)

2. On 4 - 5 May 82, Mr. Guy Infante of AFLC's DCS/Maintenance provided a presentation at HQ AFSC on the subject of the standard cost accounting system used at AFLC's depots.

a. Purpose: Mr. Fitzgerald wanted to provide "cross-fertilization" between AFLC and AFSC in an area of common interest: cost control. Mr. Fitzgerald strongly feels that the AFLC system provides a sound basis for cost visibility and control; and that there should be direct applicability from AFLC's cost control of maintenance operations to aerospace contractor cost control of manufacturing work. The AFLC system relies on engineered work measurement standards, earned value, and standard cost accounting techniques for product costing and industrial fund pricing. (NOTE: The AFLC system appears to have the ingredients necessary to be a successful Air Force in-house application of C/SCSC.)

b. Attendees: Representatives from HQ AFSC/AC, HQ AFSC/PM, SAF/FM and Mr. Fitzgerald.

c. Mr. Fitzgerald's key comments and concerns:

(1) AFLC's system establishes engineered standards for all direct labor (maintenance operations) in the AFLC depots. These engineered work measurement standards represent what the work "should-cost". The system provides the total maintenance cost per direct standard hour. This provides a direct measure of efficiency of the resource centers that do the work, the efficiency of the overall depot, and the efficiency of each intermediate management level.

(2) This concept directly relates to aerospace contractors. If contractors were required to use engineered work measurement standards ("should-cost" standards) for manufacturing work, we could then readily obtain the total cost per direct standard manufacturing hour for each of our contractors. This would do two things:

(a) We would have quantitative efficiency measures between contractors. Sampling of contractor standards by government evaluators could establish/validate the variability of the standards ("calibrate" whether fat or lean) between contractors.

(b) We would have a "should-cost" basis for estimating unit costs for our production buys. We currently use actual cost histories (including learning curves) for estimating and pricing. "Actuals" perpetuate inefficiencies; we should use a "should-cost" basis where possible. Good standards promote efficiency and lower costs. "Should-cost" standards (for planning) can be developed by work measurement experts as soon as a product is defined (pre-prototype). These standards can be refined later. There could be enormous savings between "should-cost" efficiency and our current methods which use past "actuals" for estimating and pricing our out-year procurement programs.

(3) We should anticipate industry association opposition under the umbrella of "new requirements" for any new thrust in work measurement or cost performance measurement. However, the current Air Force Secretariat is strongly disposed to support any effort which provides real promise for improved cost visibility and control. With the Secretariat's current interest and support, we have an immediate opportunity for a significant impetus in this area even though there may be ongoing and potential aerospace industry resistance or opposition.

d. HQ AFSC/AC and PM representatives discussion with Mr. Fitzgerald:

(1) C/SCSC. Where engineered standards or other work measurement systems are used by contractors, there must be a formal relationship between these values and work package budgets. However, engineered standards are not a requirement of C/SCSC.

(2) MIL-STD-1567, Work Measurement. Engineered standards are a requirement of this MIL-STD. While some contractors have been resistant (as they were initially resistant to C/SCSC; and sometimes still are resistant to C/SCSC), the MIL-STD is being implemented by Air Force contractors. However, there are no standard reports to procure the kind of data that Mr. Fitzgerald would like to have (cost per direct standard hour); nor is there a plan to evaluate the variability in standards between contractors. While we agree that the MIL-STD will improve price estimating, it is not one of the purposes of the MIL-STD to compare efficiency between contractors. (The ability to validate comparisons between contractors is subject to differing views among industrial and work measurement specialists.)

3. Mr. Fitzgerald's next steps:

a. At this time, he does not anticipate wanting to impose new reporting requirements on our contractors. However, he wants to fully understand the current availability of contractor internal work measurement information to our plant representatives. He may want to explore the ability to report such information internally (solely within Air Force or DOD channels) or through the existing Cost Performance Report standard data item. He would like for Secretary Orr to have the capability for efficiency measures of our contractors and eventually a "should-cost" (engineered work measurement standards) basis for cost estimating and pricing.

b. He will be at Hughes' Tucson manufacturing facility on 18 - 19 May 82. He will discuss with AFPRO and AFCMD representatives the application of work measurement techniques to the Maverick program and the relationship of such techniques to C/SCSC and the data provided through the Cost Performance Report. I will accompany and assist him on this visit.

c. He intends to provide Mr. Hale with an interim report not later than 15 Jun 82. Mr. Fitzgerald will look into the cost control of engineering and development type work at a later time.

Stanly S. Kagan

STANLY S. KAGAN, Lt Col, USAF
Chief, Cost Info & Mgt Systems Division
Directorate of Cost & Mgt Analysis

1 Atch
SAF/FMM Memo, 9 Apr 82

Cy to: PMM (Mr. AAby)

CC

28 MAY 1982

Subj: Visit of Mr. Ernie Fitzgerald, 1 Jun 82

Attached is an information package for subject visit.

[illegible]
[illegible] USAF
DCS/Comptroller

5 Atch
1. Talking Paper, 28 May 82
2. Talking Paper, 21 May 82
3. Potential Ankle Biter, 26 May 82
4. AC Memo w/atch, 10 May 82
5. AC Msg, 312105 Mar 82

Cy to: CS
CV

TALKING PAPER

FOR

MR. ERNIE FITZGERALD'S VISIT ON 1 JUNE 1982

MAIN THRUST

SAF/FM (Mr. Hale), after reviewing Maverick data from Mr. Fitzgerald's visit to Hughes Aircraft Company, is apparently interested in comparability of manufacturing efficiency/unit manufacturing cost between different missiles.

AC/PMDE/SDZE

DISCUSSION

(1) RECOMMENDATION TO USE MAVERICK AS A TEST CASE FOR REVIEWING MANUFACTURING EFFICIENCY IS A COORDINATED AC/PM/SD POSITION.

See Talking Paper, 21 May 82 (Atch 2)

(2) HUGHES EFFICIENCIES APPEAR LOW; HOWEVER, WE HAVE NO BASIS FOR COMPARISON.

We have no basis for evaluating what the Hughes manufacturing performance indexes should be. By looking at Hughes data in isolation, we could infer some unfavorable conclusions about Hughes' efficiency. Such conclusions might be unwarranted and unfair.

For Hughes' indexes, see Talking Paper, 21 May 82, Atch 1. to Atch 2

(3) SELECTING SOME OTHER MISSILES AND CONTRACTORS WOULD BE BENEFICIAL IN ESTABLISHING A CONTEXT FOR POTENTIAL EVALUATION OF EFFICIENCY DATA.

RECOMMENDATION

(1) In addition to the Hughes Maverick data, AFSC and SAF/FM should select a minimal number of other systems where data can be readily collected by our AFCMD detachments. This recommendation has not been coordinated with PM or SD. This should be resolved after our 1 June 1982 meeting with Mr. Fitzgerald.

(2) All SAF/FM desired data collection should be delineated in Mr. Fitzgerald's written report. SAF/FM should also agree to work directly with the AFCMD detachments and appropriate program offices in establishing what internal contractor data will be collected and how the data will be displayed.

As of: 28 May 82
OPR: ACCI/Lt Col Kagan
ext 5143

TALKING PAPER

ON

MR. ERNIE FITZGERALD'S VISIT WITH GEN MARSH

(STUDY OF C/SCSC EFFECTIVENESS)

MAIN THRUST

Mr. Fitzgerald wants to discuss the potential for improved manufacturing efficiency and cost visibility.

Mr. Fitzgerald discussed this matter with Mr. Hale on 20 May and he indicates that Mr. Hale was very receptive. Mr. Fitzgerald wants to discuss his observations and suggestions with Gen Marsh prior to discussion with Secretary Orr and prior to further work on the C/SCSC effectiveness study.

DISCUSSION

(1) MR. FITZGERALD'S REVIEW OF THE EFFECTIVENESS OF C/SCSC IS CURRENTLY FOCUSED ON CONTRACTOR MANUFACTURING EFFICIENCY.

Mr. Fitzgerald feels that C/SCSC is doing its job for overall contract cost status and summarization. However, he also feels that contractor manufacturing efficiency is a cost-driver and warrants closer attention.

(2) RELATIONSHIP OF C/SCSC REQUIREMENTS AND MANUFACTURING EFFICIENCY.

For C/SCSC-compliant systems, the dollar budget allocated by a contractor for a manufacturing task (work package) is the proportionate share of the total contract dollar value required to perform the manufacturing task (work package).

In addition, a formal relationship exists between the dollar budget allocated to the manufacturing task and the work measurement standard associated with the same task (when the contractor uses work measurement standards).

The formal relationship between the budget and the standard is the realization factor or planned efficiency. When a task is completed, the standards are earned and the associated budget is earned (based on the planned efficiency factor).

Actual costs incurred are compared to the earned budgets to determine the cost variance. The earned budgets, costs incurred and cost variances summarize from the bottom-up; they are traceable from the top-down; and they are reported on the Cost Performance Report contract data item.

As of: 21 May 82
OPR: ACCI/Lt Col Kagan
ext 5143

However, planned efficiency factors and performance against such factors are not available through standard report formats. This data is embedded within the C/SCSC-related information and is available only through internal contractor work measurement systems.

(3) MAVERICK MANUFACTURING EFFICIENCY AT HUGHES AIRCRAFT COMPANY.

Mr. Fitzgerald visited the Hughes manufacturing facility at Tucson on 18 - 19 May. See Atch 1 for current data on Maverick efficiency. This data was derived from available internal Hughes reports. The TV Maverick (based on over 20,000 units) shows that 4.3 actual direct labor hours are needed for each standard hour. The IR Maverick (based on 80 units at Tucson) shows that it has taken 17.2 actual direct labor hours for each standard hour.

Since we do not collect this type information in any organized form, we do not have a sound basis for its evaluation (i.e., whether Hughes is fat or lean). But in Mr. Fitzgerald's terminology there appears to be "gold in the mine".

(4) MR. FITZGERALD WILL PROPOSE THAT WE COLLECT AND SUMMARIZE MANUFACTURING EFFICIENCY INFORMATION FOR INTERNAL AIR FORCE REVIEW.

The information is available from any contractor's system that uses work measurement standards. Work measurement is required by MIL-STD-1567; and it is being applied to AFSC contracts. Data in the desired formats would have to be periodically gathered in-plant by our contract administration activities.

A sample format designed by Mr. Fitzgerald is shown in Atch 2. It would display the emerging labor manufacturing efficiency and provide added insight into the unit cost. Contractor awareness of Air Force review might also provide additional motivation to improve internal efficiency.

(5) MR. FITZGERALD WILL PROPOSE THAT WE USE MAVERICK AS A TEST CASE.

The Hughes Tucson AFPRO is willing and capable of providing the information, once the formats are defined.

RECOMMENDATIONS

(1) Implement Mr. Fitzgerald's suggestion as a test case for Maverick. The SAF/FM study team should help define the appropriate formats from the available data.

2 Atch
1. Maverick Data
2. Sample Format

TUCSON MANUFACTURING EFFICIENCY DATA
FOR
MAVERICK MISSILE

1. Standard Hours

	TV MAVERICK (2)	IR MAVERICK (3)
Fabrication	15	114
Assembly	24	113
Test	5	.35
TOTAL	44	262 (4)

2. Performance Index (1)

	TV MAVERICK (2)	IR MAVERICK (3)
Fabrication	2.5	6.6
Assembly	4.5	18.0
Test	9.0	23.5
TOTAL	4.3	17.2

NOTES

(1) The performance index is the ratio of actual direct labor hours for each standard hour.

(2) Data is based on production of over 20,000 missiles.

(3) Data is based on the first 80 development missiles at Tucson.

(4) AFPRO representatives indicate that for the next IR Maverick buy (200 - 400 missiles), Hughes hopes to reduce the labor standard hours to approximately 200 hours and the performance index to less than 10.

POTENTIAL ANKLE BITER

REGARDING

MR. ERNIE FITZGERALD'S STUDY OF C/SCSC EFFECTIVENESS

MAIN THRUST

Mr. Hale, through discussion on 20 May 82 with Mr. Fitzgerald, is aware that C/SCSC has been "waived" on the current IR Maverick contract.

Mr. Hale apparently expressed concern that C/SCSC should be applied on all future Maverick efforts.

DISCUSSION

(1) C/SCSC AND FULL COST PERFORMANCE REPORT (CPR) HAVE BEEN "WAIVED" BY ASD FOR IR MAVERICK CONTRACT. "WAIVER" OCCURRED WHEN CONTRACT SHOWED APPROXIMATELY 90% COMPLETE.

When Mr. Fitzgerald's C/SCSC study team visited Hughes Aircraft Company, Tucson AZ on 18 - 19 May 82, it came to his team's attention that C/SCSC was no longer being used on the IR Maverick contract (F33657-78-C-0468) and that the Cost Performance Report (CPR) showed only actual costs (ACWP).

(2) IR MAVERICK CONTRACT HAS EXCEEDED CEILING PRICE.

Although the cumulative ACWP currently exceeds the ceiling price, we do not have an AFSC policy that encourages a waiver of C/SCSC or CPR data in such situations, nor should we. We have no other auditable or traceable basis for directly validating percent of work complete or for direct visibility into remaining work plans.

(3) POLICY LETTER SENT TO ASD.

AFSC/AC has sent guidance to ASD/AC requesting steps be taken to preclude waivers of this nature; and to assure that C/SCSC and the CPR are applied to all future flexibly-priced IR Maverick work.

(4) C/SCSC AND CPR ARE BEING APPLIED TO NEXT IR MAVERICK BUY.

ACTION DESIRED

(1) NONE - INFORMATION ONLY.

As of: 26 May 82
OPR: ACCI/Lt Col Kagan
ext 5143

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15 JUN 1982

MEMORANDUM FOR THE CHIEF OF STAFF, USAF

SUBJECT: Appointment of Mr. A. E. Fitzgerald as Management Systems Deputy

As you know, earlier today the U.S. District Court approved an agreement between the Air Force and Mr. A. E. Fitzgerald settling his longstanding suit over previous job placement. Pursuant to this agreement, Mr. Fitzgerald will be appointed Management Systems Deputy within SAF/FM effective June 21, 1982. In this new capacity, he will have two staff positions reporting directly to him. The position description for this new function states in part:

"The Management Systems Deputy is responsible at the highest Air Force level for policies and procedures regarding:

(a) Integrated performance measurement, cost control and reduction

(b) Economic cost effectiveness analysis

(c) Management information and control systems

(d) Productivity enhancement and measurement

(e) Statistical programs and analysis

(f) Cost estimating and cost analysis."

The position description also states that in carrying out his responsibilities, "Incumbent is delegated necessary authority to carry out assigned duties and has authority to utilize resources, including manpower, as required to satisfactorily discharge the duties of his office" and "...has direct access to information and is authorized travel to visit Air Force field activities and contractors as necessary to perform duties described herein."

Settlement of this law suit brings to an end over a decade of legal strife between Mr. Fitzgerald and the Air Force. It is important that the Air Force as a whole give its complete cooperation to Mr. Fitzgerald in carrying out his new responsibilities. Please assure that the Air Staff and the Major Commands are made aware of Mr. Fitzgerald's new assignment and give him their full support.

Russell D. Hale

RUSSELL D. HALE
Assistant Secretary of the Air Force
(Financial Management)

WASHINGTON DC 20330

17 JUN 1982

MEMORANDUM FOR AF/AC AF/IG AF/LE
AF/PR AF/MP AF/RD
AF/XO

SUBJECT: Management Systems Deputy

I am forwarding the attached SAF/FM memorandum for your information. The areas Mr. Fitzgerald has been given responsibility for are important to the Air Force and warrant your full cooperation and support.

Hans H. Driessnack

HANS H. DRIESSNACK, Lt General, USAF
Assistant Vice Chief of Staff

1 Attachment
Memo, 15 Jun 82, from SAF/FM
to CSAF

cc: AFSC/CC
AFLC/CC ✓

DCS/MAINTENANCE (MA)
Dep Chief Staff
Asst DCS
Asst DCS
Executive

Office	Action	Info
MAI		✓
MAS		✓
MAJ		✓
MAC		
MAX		

MASR

MASE CB

MA(4)

INTURN

CHRONOLOGICAL LISTING - MANUFACTURING COST VISIBILITIY STUDY

1. 9 Jul 82 SAF/FM Deputy memorandum to HQ USAF/AC tasking the Air Force to do the Contractor Manufacturing Direct Labor Hour Study. Requested study on ALCM, GLCM, Maverick (TV & IR), AMRAAM, WASP, HARM, AIM-7, and AIM-9 missiles.

9 Jul 82-22 Jul 82 HQ USAF/ACM reviewed the 9 Jul 82 memorandum and prepared the 22 Jul 82 letter.

2. 22 Jul 82 HQ USAF/ACM letter to HQ AFSC/AC tasking AFSC to do the study and be the principal focal point for gathering all manufacturing direct labor hour data. Copies sent to HQ AFSC/PM and SD. Neither the 9 Jul 82 nor 22 Jul 82 letters has a suspense date nor a discussion of this being a recurring study.

24 Jul 82-13 Aug 82 HQ AFSC developed formats and performed necessary staffing to ensure clear understanding in the field as to what data was required.

3.a. 13 Aug 82 HQ AFSC/PM/AC letters to AFCMD and DLA-DD(AM) requesting their organizations collect the data for SAF/FMM's study. The letters directed the field to collect FY 80 system data with cutoff date of 30 Jul 82, data formats to be received at AFSC NLT 15 Sep 82.

3.b. 16 Aug 82 HQ AFSC/AC letter requesting the Navy provide data as indicated in 3a above.

4. 16 Aug 82 HQ AFSC/ACC letter to HQ USAF/ACM transmitting the tasking letters described in 3a and 3b above. Letters were provided to ensure the tasking agency was aware of AFSC action. The transmittal stated data would be forwarded by 24 Sep 82.

16 Aug 82-21 Oct 82 Data was collected and returned in response to letters described in 3a and 3b above as indicated in the following table:

Agency	Date of Transmittal	Date of Receipt
AFCMD	14 Sep 82	16 Sep 82
DLA-Raytheon (TN)	13 Sep 82	20 Sep 82
DLA-Texas Instruments	20 Sep 82	27 Sep 82*
DLA-General Dynamics	15 Sep 82	23 Sep 82
DLA-Raytheon (MA)	24 Sep 82	29 Sep 82*
DLA-Raytheon (MA) (Addendum)	30 Sep 82	5 Oct 82*

*AFSC estimate.

Delay in transmitting the data to AFSC was principally because DLA did not task its field organizations until after a Report Control Symbol (RCS) was provided to them. Obtaining of the RCS was (worked between HQ AFSC/AC and HQ USAF/AC. The DLA responses were much less complete than the AFCMD responses. This problem was discussed with SAF/FMM in late August/early September and he was verbally notified of the lateness of the report and that the DLA responses were not being formatted as requested but raw data was being sent. Following receipt at AFSC, the data was compiled and forwarded.

5. 21 Oct 82 HQ AFSC/PM/AC letter transmitting the completed study results to HQ USAF/ACM and RDC.

21 Oct 82-15 Nov 82 The Air Staff reviewed the data and evidently sent it forward 29 Oct 82.

6. 15 Nov 82 SAF/FMM memorandum for HQ USAF/ACM, requesting AFCMD complete the data collection and format it as agreed to previously. SAF/FMM requested the data by 10 Dec 82.

15 Nov 82-17 Jan 83 HQ AFSC provided a complete set of the data informally to AFCMD in anticipation of receipt of formal tasking. No formal action was taken during this period.

7. 7 Jan 83 HQ USAF/RDC memorandum to SAF/FMM stating that HQ USAF/RDC is the OPR for this kind of data and that HQ USAF/RDC did not know what agreements were made or what formats were desired. Requested SAF/FMM to rescope the study and noted previous deficiencies that needed correction. AFSC unaware of any SAF/FMM reply.

8. 17 Jan 83 SAF/FMM memorandum for AFCMD. Handwritten document directly assigned AFCMD the task of fulfilling the 15 Nov 82 memorandum.

17 Jan 83-15 Mar 83 Since this tasking (item 8) did not follow formal channels, two months were expended in clarification. Limited analytical work was performed by AFCMD during this period.

9. 15 Mar 83 HQ AFSC/PM message to AFCMD/CC asking AFCMD to furnish through channels the data requested directly from them by SAF/FMM. Recognizing AFCMD was expending effort HQ AFSC/PM prepared the message to provide guidance to assure the resulting product was conveyed through the proper channel.

15 Mar 83-16 May 83 Collection and formatting of additional required data accounts for most of the time in this interval.

10. 16 May 83 AFCMD/CC letter to HQ AFSC/PM transmitting data requested by SAF/FMM.

16 May 83-15 Jun 83 The period following receipt of the data at HQ AFSC/PM was expended in staff review, analysis and coordination of the data.

11. 15 Jun 83 HQ AFSC/PM letter coordinated with HQ AFSC/AC to HQ USAF/RDC transmitting the AFCMD data.

12. 28 Jun 83 HQ AFSC/PMD letter tasking AFCMD to provide answers to questions raised during HQ AFSC review, analysis and coordination of the data.

13. 18 Jun 83 Telecon between AF/RDCM and AFSC/PMD requesting that dates be added to each chart to each chart to reflect date of collection of the data. (No TAB)

14. 6 Jul 83 Updated charts received from AFSC on the bus. Cover letter not redone. (No Tab)

15. 18 Jul 83 Package Transmitted to SAF/FMM by AF/CVA.

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

9 JUL 1982

MEMORANDUM FOR GENERAL BROWNING (AF/AC)

SUBJECT: Contractor Manufacturing Direct Labor Hours

This memorandum confirms verbal instructions on the above subject.

At the meeting in my office on 8 July 1982 with AFSC, the Air Staff, and Secretariat representatives, we discussed and distributed a sample format for standard labor hour distribution by function and hardware item and also the AFSC format for tracking manufacturing direct labor hours per equivalent unit.

Please direct AFSC to provide information in the requested formats, suitably tailored for particular contractors and products, for the Air Launched Cruise Missile, Ground Launched Cruise Missile, Maverick (TV and IR), AMRAAMS, and WASP. Asst Secretary Hale previously requested similar information on HARM, AIM-7, and AIM-9. AFSC representatives at our meeting requested relief from this tasking on the grounds that these are Navy-managed programs. We have acceded to the AFSC request on this point, and will attempt to collect the needed information directly from Air Force Headquarters. Accordingly, please designate the appropriate AC office to work with the FM staff in collecting the needed information from the Navy.

Willard H. Mitchell

WILLARD H. MITCHELL
Principal Deputy Assistant Secretary
(Financial Management)

cc: SAF/ALP

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C.

ACM

22 JUL 1982

Contractor Manufacturing Direct Labor Hours

HQ AFSC/AC

1. The attached Memorandum from Mr. Mitchell confirms the discussion at the 8 July meeting on collecting data on direct labor hours. Request you insure this data is collected in the appropriate formats and provided to SAF/FM through AF/ACM.

2. We have contacted the Navy to request the same type of data from the program offices for the AIM-7, AIM-9, and HARM. Since these are joint program offices we should be able to get most of the same information. Request you assist in following up with the Navy project officers to insure the data is collected and provided in the appropriate formats.

3. This tasking has been coordinated with the AF/RD Pricing Office.

FOR THE CHIEF OF STAFF

Donald G. Kane
DONALD G. KANE
Colonel, USAF
Director of Cost and
Management Analysis

1 Atch
As stated

cc: AF/RDCP
HQ AFSC/PM
HQ AFSC/SD

Maj Foster/ACCI/5143/11 Aug 82/jlj

1 3 AUG 1982

[illegible]/AC

Manufacturing Cost Visibility

AIR-00 ([illegible])

1. Tasking from SAF/FM through USAF/ACM directs that manufacturing performance data be collected on an internal test basis (Atch 1 and 2). As you are aware, manufacturing labor performance can be a significant cost factor on contracts with repetitive manufacturing requirements. Significant information is available, although not obtainable through current standard report formats. This includes manufacturing labor standards, planned realization factors and performance against these elements. This data is normally available only through internal contractor work measurement systems.

2. Preliminary studies indicate this data would provide sufficient additional cost visibility to warrant this test. The systems selected under your cognizance are the Ground Launch Cruise Missile (GLCM), Sparrow Missile (AIM-7), Sidewinder (AIM-9), and High Speed Antiradiation Missile (HARM). Request that available FY 82 system level data be collected through the end of the contractors' Jul 82 accounting month in formats as close as possible to that shown in attachment 3, 4, and 5. Forward copies to HQ AFSC/ACCI and the applicable system program office to arrive by 15 Sep 82.

3. The HQ AFSC/ACC focal point for this task is Maj Brady C. Foster, Commercial (301) 981-5143 or AV 858-5143. Please have your project officers contact him to obtain additional information as needed.

FOR THE COMMANDER

ORIGINAL SIGNED

THOMAS E. LLOYD
Colonel USAF
Asst DCS/Contracting and Manufacturing

ORIGINAL SIGNED

ALAN P. BABBITT
DCS/Comptroller

5 Atch
1- SAF/FM ltr
2- USAF/ACM ltr
3- DATA FMT- Manuf EQ UNIT/HRS
4- DATA FMT- Manuf EQ UNIT/HRS
5- DATA FMT- Manuf EQ UNIT/$

Cy to: HQ USAF/ACM
PMA-262
PMA-259
PMA-242
JCMPO/[illegible]

Atch 9

Format 1

Manufacturing Efficiency Data*

1. STANDARD HOURS (1):

	XYZ Missile (2)
FABRICATION	15
ASSEMBLY	24
TEST	5
TOTAL	44

2. PERFORMANCE INDEX (3):

	XYZ Missile
FABRICATION	2.5
ASSEMBLY	4.5
TEST	9.0
TOTAL	4.3

* Sample Data Provided as an Example (provide tailoring for particular contractors and products).

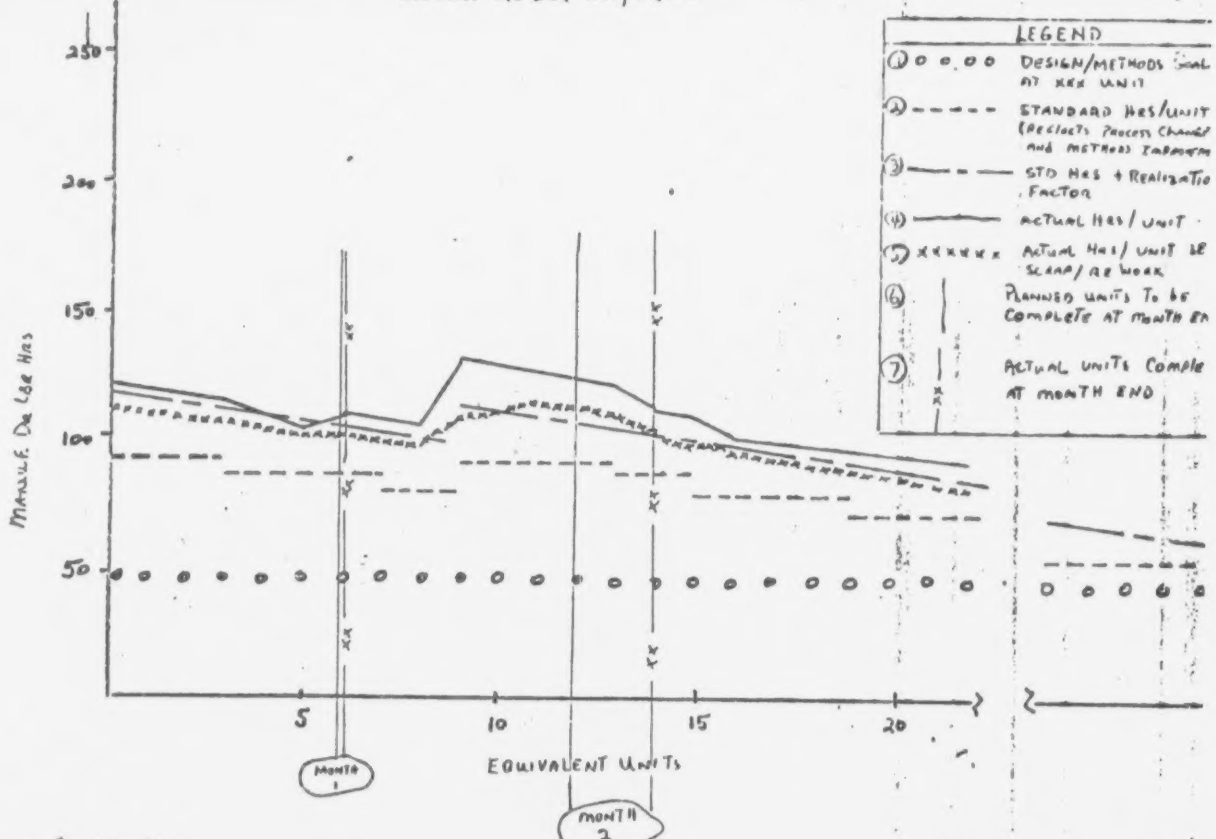
(1) Provide explanation on contractors' method(s) of developing Std hrs and whether MIL-STD 1567 is on contract. Also provide definition of what is included in the Std Hrs and what is included in the contractor(s) realization factor.

(2) Provide note on how many units data is based on.

(3) The Performance Index is the ratio of actual hours for each Std hr.

FORMAT 2

Manuf. Dir LBR Hrs/EQ. Unit



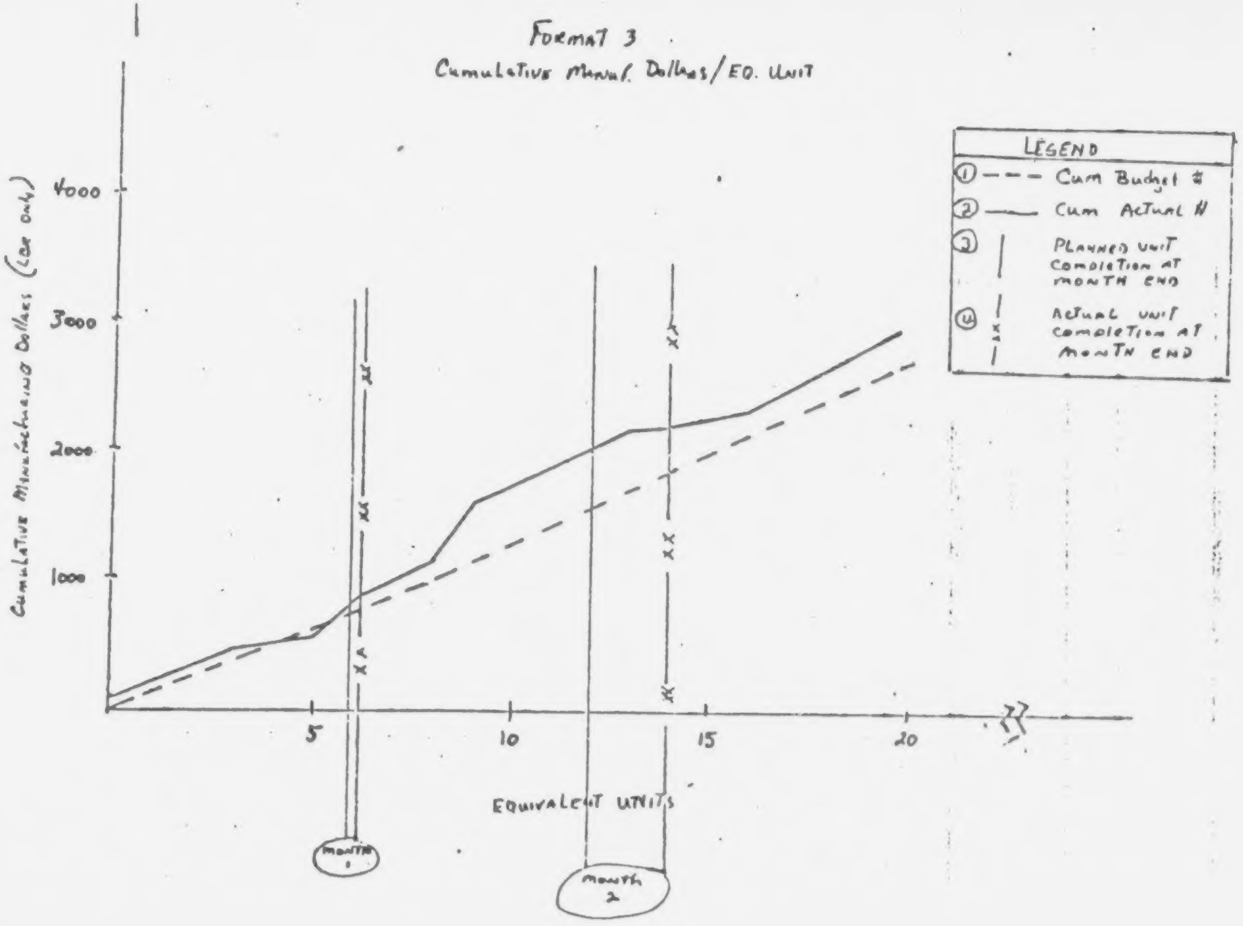
PRODUCTIVITY AT MONTH END .... xxxx .... xxxx .... xxxx xxxx

[STD HRS/MO ÷ ACT HRS/MO] x

[HRS in STD MONTH)

Format 3

Cumulative Manuf. Dollars/EQ. Unit



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE SYSTEMS COMMAND
ANDREWS AIR FORCE BASE, DC 20334

16 AUG 1982

REPLY TO ATTN OF: AC

SUBJECT: Contractor Manufacturing Direct Labor Hours (Ref HQ USAF/ACM Ltr, 22 ~~29~~ Jul 82, Same Subject)

TO: HQ Naval Material Command (NAVMAT)

1. Your assistance has been requested in obtaining manufacturing performance data on a test basis for the AIM-7, AIM-9, and HARM Programs (reference subject letter). We have been tasked to ensure that appropriate data has been collected.

2. The information required should be obtained from the contractors' data and consists of the manufacturing standard hours and equivalent unit data. The sample formats at attachments 1, 2, and 3 depict the desired data. This is a test study, and the data is needed for the FY 80 effort through the end of the contractors' Jul 82 accounting month. Data should be forwarded to this office and the appropriate system program offices by 15 Sep 82. Use should be made of the appropriate Contract Administration Office in obtaining this data.

3. We have sent tasking letters to the Air Force Contract Management Division and Defense Logistics Agency with copies to the Joint Program Offices. Major Brady C. Foster, HQ AFSC/ACCI, AV 858-5143 or Commercial (301) 981-5143, is the project officer and should be contacted if questions arise.

FOR THE COMMANDER

ALAN P. BABBITT
Asst DCS/Comptroller

4 Atch
1- DATA FMT- Manuf Eff
2- DATA FMT- Manuf EQ UNITS/HRS
3- DATA FMT- Manuf EQ UNITS/$
4- Tasking Ltrs

Cy to: USAF/ACM

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE SYSTEMS COMMAND
ANDREWS AIR FORCE BASE, DC 20334

16 AUG [illegible]

REPLY TO ATTN OF: ACC

SUBJECT: Contractor Manufacturing Direct Labor Hours (Ref Yr Ltr Same Subject, 22 Jul 82)

TO: HQ USAF/ACM

1. Per your request, letters have been issued to the Air Force Contract Management Division, Defense Logistics Agency, and HQ Naval Material Command depicting the desired manufacturing performance data and formats to support SAF/FM's test study.

2. Data has been requested for FY 80 effort completed through the end of the contractors' Jul 82 accounting month. Data is to be received by the appropriate AF program offices and this office on 15 Sep 82 with forwarding to you on 24 Sep 82.

3. Major Brady C. Foster, HQ AFSC/ACCI, extension 5143, has been tasked to act as the focal point for this matter.

FOR THE COMMANDER

THOMAS B. [illegible], COL, USAF
Director of Cost & Mgt Analysis
DCS/Comptroller

3 Atch
1- Ltr USAF Components
2- Ltr NAVMAT - 01
3- Ltr DLA

UNCLASSIFIED

03 01 151500Z MAR 83 CP RR UUUU PUDE 061200

YES

HQ AFSC ANDREWS AFB MD//PM//

AFCMD KIRTLAND AFB NM//CC//

INFO AFCMD KIRTLAND AFB NM//PD//

UNCLAS

SUBJECT: PROGRAM STANDARD HOUR AND REALIZATION DATA

1. MR. FITZGERALD (SAF/FMM) DIRECTLY REQUESTED FROM AFCMD STANDARD HOUR AND REALIZATION DATA IN SPECIFIED FORMAT ON SELECTED SYSTEMS. REQUEST YOU SEND THIS DATA, WHEN AVAILABLE, TO HQ AFSC/PM TO BE FORWARDED THROUGH CHANNELS.

2. OUR FOCAL POINT IS MR. JIM WEBBER, HQ AFSC/PMDE, AUTOVON 858-6540.

MR. WEBBER/PMDE/EXT 6540/PRR

[illegible] JR
Brigadier General, USAF
DCS/Contracting & Manufacturing

UNCLASSIFIED

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE CONTRACT MANAGEMENT DIVISION (AFSC)
KIRTLAND AIR FORCE BASE, NM 87117

① COL [illegible]
MS. [illegible]

REPLY TO ATTN OF: CC

16 May 1983

SUBJECT: Manufacturing Cost Visibility Data Requested by Mr A. E. Fitzgerald

TO: HQ AFSC/PM

1. Attached is the data requested by Mr A. E. Fitzgerald. We have followed the requested format as closely as possible, depending on the availability of the data from the contractor.

2. Please forward this data to Mr Fitzgerald at your earliest convenience.

Donald J. Stukel

DONALD J. STUKEL
Brigadier General, USAF
Commander

1 Atch
Cost Visibility Data

WALT [illegible]
X 1569

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE SYSTEMS COMMAND
ANDREWS AIR FORCE BASE DC 20334

15 JUN 1983

REPLY TO ATTN OF: PM/AC

SUBJECT: Manufacturing Cost Visibility Data Requested by Mr. A.E. Fitzgerald

TO: HQ USAF/RDC

1. On 17 Jan 83, Mr. A.E. Fitzgerald, SAF/FMM, wrote a memorandum to AFCMD requesting certain data (Atch 1). AFCMD has responded to that request with the attached data (Atch 2). We request you forward it through the appropriate channel.

2. This data was collected on a one-time basis. It is not complete because data available from contractor data collection systems did not include some of the requested information. Attempting to use this data to evaluate individual programs or to compare contractors' relative performance can lead to incorrect conclusions. Interprogram comparison is not feasible because the methods of collection, criteria for application, etc. are not consistent between programs.

3. Recognizing the potential utility of this kind of information as a manufacturing management and cost estimating tool, we are pursuing answers to questions it raises about the performance of specific contractors represented. General comments on the data are provided as attachment 2 to this letter.

4. This data is designated "For Official Use Only" because its release might be detrimental to the competitive positions of the contractors whose performance it represents. Included in this data is material marked as proprietary by the contractor who furnished it. Other included material appears to be proprietary but is not so marked. It appears to be covered by the Trade Secrets Act (18 USC 1905). We strongly recommend treating all the data as proprietary.

5. This is a coordinated HQ AFSC PM/AC letter.

FOR THE COMMANDER

JAMES C. DEVER, JR.
Brigadier General, USAF
DCS/Contracting & Manufacturing

3 Atch
1. SAF/FMM Memo for AFCMD, 17 Jan 83
2. Talking Paper on Manufacturing Cost Visibility Data
3. AFCMD/CC Ltr, 16 May 83 w/Atch (FOUO)

FOR OFFICIAL USE ONLY (ATCH 3)

PMDE/Mr. Keller/27 Jun 83/bgr KELLER30 BGR3 FILE 11F

28 JUN

PMD

Manufacturing Cost Visibility Data

AFCMD/PD

1. We have analyzed and forwarded the manufacturing cost visibility data you prepared for Mr. A.E. Fitzgerald. When we reviewed the data, we found that it raised questions about contractor performance and data compilation methods. Please provide answers before 15 Sep 83 (Atch 1, Items 1-3) and 15 Nov 83 (Atch 1, Items 5 and 6).

2. Before forwarding the package, we removed the "General Comments" page and are returning it to you (Atch 2). Removal was in accordance with telephone instructions from Col Bryan, AFCMD/PD, 3 Jun 83.

FOR THE COMMANDER

JOSEPH B. ANDERSON
Director of Manufacturing
DCS/Contracting & Manufacturing

2 Atch
1. Questions Raised by Manufacturing Cost Visibility Data Requested by SAF/FMM (FOUO)
2. General Comments Manufacturing Cost Visibility Exercise

[illegible]	SIGNATURE	DATE
PMDE	W. Keller	27 Jun 83
PMDE	C. [illegible]	27 Jun 83

FOR OFFICIAL USE ONLY (ATCH 1)

Questions Raised by Manufacturing Cost Visibility Data Requested by SAF/FMM

1. ALCM -

a. Why does the data fall on a perfect curve?

b. Does Boeing have a methods goal for ALCM?

c. Does Boeing track standards with time?

d. Boeing provides an "average" standard--is this a unit-weighted average? How is it determined?

e. Why does ALCM rework go through a minimum Aug 82 then increase again through Oct 82?

2. IR Maverick -

a. Does Hughes have a methods goal?

b. Why do IR Maverick actuals show negative learning and no learning for the period represented?

c. Why do standards show essentially no change over the period shown?

d. Why are scrap and rework at a lower proportion below about unit 65 than above?

3. AMRAAM -

a. Does Hughes have a methods goal?

b. Has Hughes developed AMRAAM standards--and what work content per unit do they show?

c. Based on work measurement effort to date, has a budget for AMRAAM work content per unit been developed?

4. AIM-9M (Ford) -

a. Where do the time intervals fall on the chart provided?

b. What happened at about units 625 and 2500 to result in negative learning which continued over 2/3 of the missiles built?

5. AIM-9M (Raytheon) -

a. Where do the time intervals fall on the chart provided?

b. Why is effort characterized by negative learning?

c. Why does rework get worse after 300 units have been built?

d. Why do the standards show no improvement across production of 500 equivalent units?

e. Has Raytheon established a methods goal?

f. Raytheon has a budget for the cumulative chart, which they were exceeding at an expanding rate at unit 400.

(1) Where does it fall on the per-unit chart?

(2) Has this condition improved since unit 400?

(3) Extrapolating this curve, how long will Raytheon capacity remain adequate?

6. AIM-7M (Raytheon) -

a. Does Raytheon have a methods goal for Lowell work? For Bristol work?

b. What does Raytheon's labor budget look like on the per-unit chart at Lowell? At Bristol, if the data is available?

c. How are the Lowell standards improving with time?

MANUFACTURING COST VISIBILITY INFORMATION STATUS

PROGRAM	CONTRACTOR	INFORMATION AVAILABLE
*ALCM	Boeing	Data provided
GLCM	GD/C	No production information available, no R&D information available
*Maverick TV	Hughes	Data provided
*Maverick IR	Hughes	Data provided
*AIM-7	Raytheon	**Partial data provided
***AIM-9	Raytheon/Ford	**Partial data provided
HARM	Texas Instruments	**DCAS has requested data from TI
*AMRAAM	Hughes	**Currently in R&D, partial data provided
WASP	Hughes	Currently in R&D, no information available

*Transmitted to USAF/ACM on 21 Sep 82

**Additional information will be provided when available

***The AIM-9 is comprised of seven major components purchased from 14 prime contractors by AFLC and delivered to an Army depot for final assembly into an "all up round."

ATCH 2

Specific Comments by AF/RDCP:

The paragraph beginning at the bottom of page 13 states that efforts were made to deflect Sec Orr's initiatives in the area of contractor employee compensation. As the attached testimony before the Senate Government Affairs Committee for demonstrates implementation of these initiatives has been one of the highest priorities of the Air Force. The Air Force has been subject to considerable criticism by labor unions and professional organizations because of the aggressive implementation of these initiatives.

Pages 14 thru 16 discusses a DCAS study of employee compensation at Pratt & Whitney, West Palm Beach, Florida. With regards to this discussion, it should be noted that contractor employee compensation data is considered proprietary. For this reason, formal procedures have been established for obtaining copies of compensation studies from DCAS.

With regards to the study itself, it should be noted that DCAS did not conclude that overall levels of compensation at Pratt & Whitney were too high. DCAS only questioned the compensation of a limited number of the highest paid personnel. In a subsequent independent review of this matter, the GAO concluded that even these DCAS conclusions regarding annual salary increases were not valid. (GAO/NSIAD-84-21, 23 Feb 1984).

Beginning at the bottom of page 16, the proposed testimony indicates that DCAA failed to provide executive compensation data requested by the Assistant Secretary of the Air Force for Financial Management. The data in question was actually obtained as part of a ad hoc committee study of employee compensation chaired by the Office of the Deputy Assistant Secretary of the Air Force for Acquisition Management (SAF/ALP). DCAA was a member of that committee. To our knowledge, all of the requested data was provided to the committee. SAF/FM was represented on the committee.

The paragraph at the bottom of page 26 states that the Parfitt Report was one of the most important milestones in Air Force efforts to control spare parts prices. The paragraph additionally indicates that no efforts have been made to deal with the fundamental issues involved in spare parts cost control. Actually, the Parfitt Report is a trip report and is only one of many studies and commentaries on spare parts pricing at Pratt & Whitney. The control of spare parts prices has been the highest priority of the Air Force acquisition and logistics community. The extraordinary efforts resulting from the Air Force Management Analysis Group study are specifically designed to correct problems in this area.

The paragraph beginning at the bottom of page 27 indicates that BGen Weiss attempted to slow down the transfer of Pratt & Whitney pricing data to Mr. Collin Parfitt. Air Force Systems Command records indicate that BGen Weiss signed out the data in question on 24 Nov 1982, the same day that Mr. Fitzgerald called. It should be noted that HQ AFSC had just received the data from the field. It should also be noted that Mr. Parfitts request for the data was made on 29 Oct 1982, less than a month before he received the data.

1 Atch
BGen Weiss Testimony
7 Mar 1984

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE ASSISTANT SECRETARY

15 June 1984

MEMORANDUM FOR MR. FITZGERALD

SUBJECT: DOD IG Spare Parts Audit (Comments Concerning)

On 18 August 1983, Secretary Weinberger requested that the DOD IG conduct a department-wide survey on the procurement of spare parts. The audit report was released 1 June 1984.

Actually, the DOD IG did not have enough manpower available so the services were allowed to audit themselves and the DOD IG assembled the report. It seems to me that it might have been better for the services to audit each other to maintain the crucially important concept of the independent outside auditor, but it's too late now.

It is a thick report and obviously represents a lot of work by a lot of people. Basically, it says that 92% of the dollars were spend on reasonably priced parts and 8% on unreasonably (high) priced parts. This has occasioned some memos saying, in effect, "We're doing pretty well. What's the problem?" It is the purpose of this memo to describe the problem.

The key issue is "What is a fair and reasonable price?" One definition of a fair and reasonable price included in the Armed Services Procurement Manual is "a price that closely approximates the sellers cost to make or acquire the part plus a reasonable profit." I will give a couple of examples of what can happen when this definition is applied.

You will no doubt remember the infamous nylon stool cap which is used on the three-legged navigator's stool in the B-52 and other aircraft to avoid marring the deck. After newspaper stories appeared describing how the USAF was paying about $1000 each for a piece of nylon about 1" on a side, Boeing and the USAF issued a joint statement justifying this price as fair and reasonable. The accounting for this justification is shown in Atch A. The point is, with the definition given above, and with present accounting and pricing procedures, this is in fact legally defined as a fair and reasonable price.

Another example is the small sledge hammer the Navy bought from Gould Electronics for $435. The accounting attempting to justify this price is shown in Atch B. We then had the spectacle of a Navy flag officer appearing before Congress and, using this accounting, attempting to justify this price as fair and reasonable. The problem is that the admiral was right -- just as with the stool cap, present regulations and procedures do allow paying these prices.

There are, quite literally, thousands of examples of parts and tools that are priced absurdly high. What is particularly interesting is what happens to these "reasonable and proper" prices when we procure competitively from small business. It is routine for the price to drop to under 50% of what we were paying. It is common for the price to drop to 10%. In my testimony to Mr. Bedell's subcommittee last October, I showed a steel flat washer that we had paid $693.44 (each) for when buying from Boeing and $2.00 (each) when buying competitively. This is by no means an isolated or, as our critics say, "taken out of context" example. We have lots more if anyone wants to argue about it.

The Congress is not unaware of these facts. Senator Roth's famous Christmas tree decorated with spare parts was a stroke of genius. Rep. Berkley Bedell got a list of tools in the same tool kit that contained the sledge hammer and sent his staff out to buy these tools with the instructions to get the same or better quality. The results are shown in Atch C. On average, his staff paid under 1% of what the government paid.

The basic problem is that if the contractor claims he spent the money, we pay him what he says he spent, plus a profit. This is shown very well by Atch B, although I'm not quite sure how one does mechanical subassembly, quality control, program planning, etc., on a hammer.

Another famous example is that of the 34 Pratt & Whitney parts brought out by a ABC 20/20 segment early in 1983. The USAF and P&W went to great pains to issue press releases wherein they insisted the prices were reasonable and proper. The experience of our ALC's is that, when they break out a P&W part for competition, the prices routinely go down by a factor of 2 or more. The P&W prices are easy to understand after reading Colin Parfitt's report on P&W pricing. For instance, on one particular engine model we pay a markup of 49% on the material Pratt buys and we pay about $250 per standard hour of output for labor. The many small business people I have talked to who run high-quality machine shops would be delighted to sell us equal or better quality work for $30-35 per standard hour of output and, when the ALC's do break out a part for competitive procurement, deliver high quality parts at much lower prices and with much shorter lead times. Legally, the prices Pratt charges us are "reasonable and proper" because the rates and factors ($250/hr and 49%) described above are formalized in a contract between Pratt and the government and Pratt is only charging what the contract says. The question is, who was dumb enough to negotiate us into such a bad position? (Answer: U.S. Navy).

There has been a great stir in the media for the last year or so about the high prices we pay for spare parts and small tools. It is astonishing to me that all those ace investigative reporters have completely missed the real story. The real story is that everything we buy (aircraft, missiles, tanks, electronic equipment, etc.) is priced just like the spares. Maybe the reporters are right. The average citizen does not have much experience in buying $3M tanks or $25M fighter aircraft but he has bought small tools and flat washers and he can identify outrageous prices for such items.

However, we have (with great difficulty) acquired a lot of data on what the prime contractors charge us for a standard hour of output, both for assembled equipment and spares. Most of the numbers are between $150 and $300 per standard hour. A very few are down around $100 and the worst we can presently document is $3407. By way of contrast, and as noted above, the commercial (competitive) sector of industry is delighted to sell us high-quality machine shop work for $30-35 per standard hour and high-quality electronic manufacturing for $20-25 per standard hour.

Thus, we see that when a prime charges us $150 per standard hour for his contribution to the product, we are paying about 5 times as much as we would if we were more businesslike. When we pay $300 we are paying about 10 times as much. This does not automatically mean that we are paying 5-10 times too much for the product, only that we are paying 5-10 times too much for the prime's contribution to manufacturing the product. Something like 60-80% of the parts are obtained from subcontractors and the prices the subcontractors charge is modulated by the type of contract the prime has with the government. If it is a fixed-price contract obtained through competitive bidding (fairly rare on big systems), the prime can be expected to squeeze his suppliers vigorously. If it is a cost-plus-percentage-of-cost (illegal but very common), the prime may even get his suppliers to charge more because the more they charge, the more profit the prime makes. The worst of all possible worlds is when the prime is an aerospace giant who fabricates very little himself but assembles subassemblies manufactured by other aerospace giants. In this case the subcontractors charge the $150-300 per standard hour and the prime tacks a hefty handling charge on the material in addition to charging the $150-300 for his contribution in assembling the product.

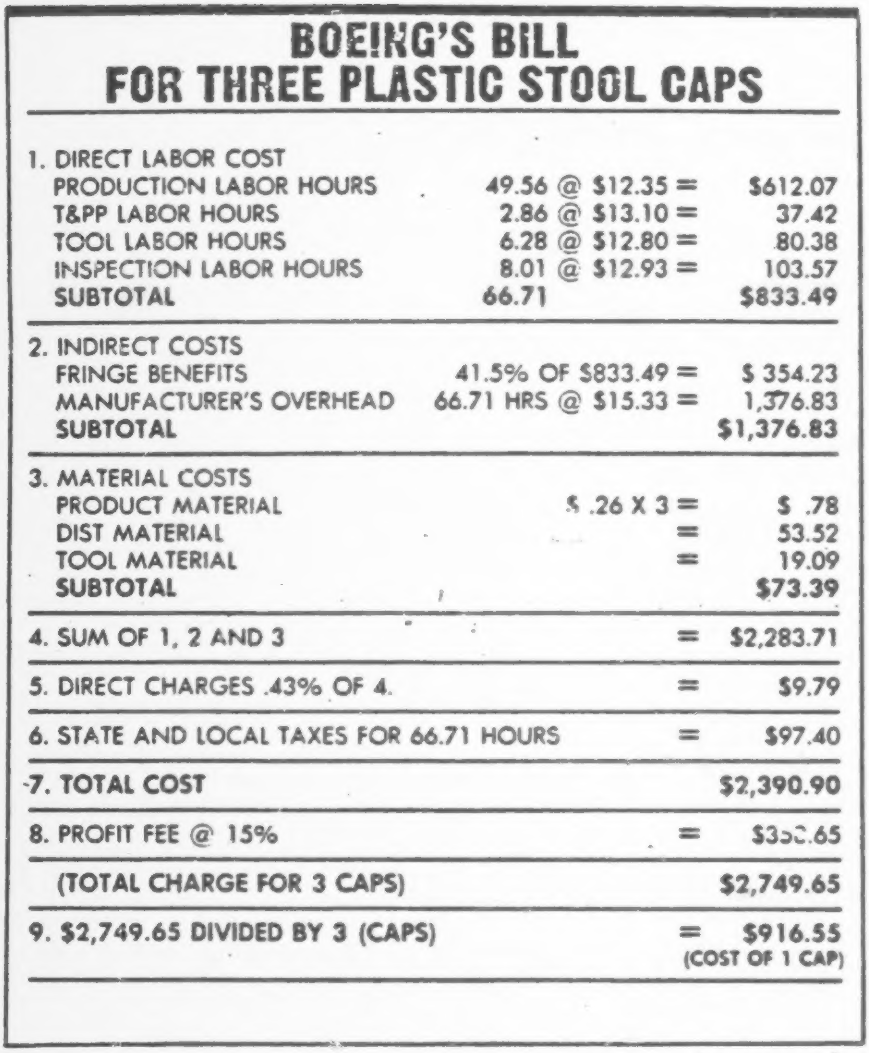
It should be noted that the costs described above represent a problem only when they come out in Congressional hearings and in the media and cause a public relations/image problem. However, these soon blow over. Other than that, we have plenty of money. The taxpayers may have a problem, but we don't.

In summary, we should stop picking on the folks who are doing the buying. They are simply following existing rules and regulations and would get into serious trouble if they started challenging the system. We should start looking at the rules and regulations very closely.

Thomas S. Amlie

Attachment

THOMAS S. AMLIE
Asst for Technical Systems



BOEING'S BILL FOR THREE PLASTIC STOOL CAPS

1. DIRECT LABOR COST		
PRODUCTION LABOR HOURS	49.56 @ $12.35 =	$612.07
T&PP LABOR HOURS	2.86 @ $13.10 =	37.42
TOOL LABOR HOURS	6.28 @ $12.80 =	80.38
INSPECTION LABOR HOURS	8.01 @ $12.93 =	103.57
SUBTOTAL	66.71	$833.49
2. INDIRECT COSTS		
FRINGE BENEFITS	41.5% OF $833.49 =	$ 354.23
MANUFACTURER'S OVERHEAD	66.71 HRS @ $15.33 =	1,376.83
SUBTOTAL		$1,376.83
3. MATERIAL COSTS		
PRODUCT MATERIAL	$ .26 X 3 =	$ .78
DIST MATERIAL	=	53.52
TOOL MATERIAL	=	19.09
SUBTOTAL		$73.39
4. SUM OF 1, 2 AND 3	=	$2,283.71
5. DIRECT CHARGES .43% OF 4.	=	$9.79
6. STATE AND LOCAL TAXES FOR 66.71 HOURS	=	$97.40
7. TOTAL COST		$2,390.90
8. PROFIT FEE @ 15%	=	$358.65
(TOTAL CHARGE FOR 3 CAPS)		$2,749.65
9. $2,749.65 DIVIDED BY 3 (CAPS)	=	$916.55 (COST OF 1 CAP)

The Washington Post

Bill to the government from Boeing in the 1970s, including Boeing arithmetical errors.

PRICING EXAMPLE - GOULD, SIMULATION SYSTEMS DIVISION

PURCHASED ITEM

ITEM - HAMMER, HAND, SLEDGE - QTY. - 1 EACH

DIRECT MATERIAL		$7.00
MATERIAL PACKAGING		1.00
MATERIAL HANDLING OVERHEAD @ 19.8%		2.00
*SPARES/REPAIR DEPT.	1. HR	
*PROGRAM SUPPORT/ADMIN.	.4 HR	
*PROGRAM MANAGEMENT	1. HR	
*SECRETARIAL	.2 HR	
	2.6 HRS ENGR. SUPPORT	37.00
ENGR. O/H @ 110%		41.00
*MECHANICAL SUB-ASSEMBLY	.3 HR	
*QUALITY CONTROL	.9 HR	
*OPERATIONS PROGRAM MGT.	1.5 HR	
*PROGRAM PLANNING	4. HR	
*MFG. PROJECT ENGR.	1. HR	
*Q.A.	.1	
	7.8 HRS MFG. SUPPORT	93.00
MFG O/H @ 110%		102.00
		$283.00
G&A @ 31.8%		90.00
		$373.00
FEE		56.00
FACILITIES CAPITAL COST OF MONEY		7.00
TOTAL PRICE		$436.00

*TOTAL SUPPORT HOURS FOR LOT PURCHASE ARE DIVIDED BY NUMBER OF ITEMS IN EACH INDICATED CATEGORY TO DETERMINE "SHARE" APPLICABLE TO THE LINE ITEM.

PRICE DIFFERENCES ON ORDINARY TOOLS

RETAIL PRICE	TOOL	CONTRACTOR'S PRIC
$7.66	HAMMER	$435.00
4.99	WRENCH, END BOX, ONE SET	768.00
3.77	PLIERS, SLIP JOINT, SIX	430.00
5.97	PLIERS, SLIP JOINT	449.00
7.94	PLIERS, VICE GRIP, TWO	486.00
12.88	WRENCH, SOCKET SET, 3/8TH	545.00
1.99	BAR EXTENSION	430.00
2.19	BAR EXTENSION	431.00
1.49	SOCKET, 1/2 INCH	456.00
1.69	SCREWDRIVER, SQUARE-BLADE, 1 SET	265.50
1.97	SCREWDRIVER, JEWELER, 1 SET	232.00
1.69	SCREWDRIVER, PHILLIPS, 1 SET	258.06
2.79	SCREWDRIVER, OFFSET	225.00
3.96	CRIMPING TOOL	729.00
4.88	SUPERJUST WRENCHES	1150.00
1.57	WRENCHES	234.00
1.69	DRILL SET	599.00
3.99	HEX DRIVER	469.00
4.27	FEELER GAGE	436.00
3.39	CIRCUIT TESTER	489.00
11.67	TOOL BOX	652.00
[illegible].44		$10,168.56

Senator Grassley. Our next witness is the deputy inspector general of the Department of Defense [illegible]. Vander Schaaf.

Mr. Vander Schaaf, I have reviewed your testimony. I thank you. I would like you to submit your entire statement, and for the purposes of the hearing, I would like you to begin your remarks with the section on page 8, criminal investigations and special investigations, if you would do that.

STATEMENT OF DEREK J. VANDER SCHAAF, DEPUTY INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Mr. Vander Schaaf. Senator, I am sure you have a lot of questions you want to ask me, and I look forward to answering them.

On page 8 of our prepared statement, which I have submitted for the record, what we say there, under the heading of criminal investigations and special inquiries, criminal investigations and special inquiries differ from the other kinds of projects we do in that they are more reactive in nature. While we can plan in advance for the relative amount of resources to be devoted to these areas, we generally do not know the specific cases where work will take place.

Criminal investigations are generally initiated in one of four ways:

One, we often receive referrals from another investigative organization; two, we get a lot of information from the DOD hotline or other sources, such as a walkin type informant; three, through leads uncovered in the course of other criminal investigations, fraud prevention surveys, inspections and audits; and, four, through analysis of past work which identifies areas needing further attention.

Once a promising lead is obtained, the case is assigned and the investigation proceeds. Following completion of a preliminary investigation, discussions are held with the appropriate U.S. attorney or assistant U.S. attorney to determine if the case should be prosecuted. When a decision is made to prosecute, we work closely with the Department of Justice to prepare and present the case.

You will hear from the Justice Department later this morning.

The review that Mr. Fitzgerald referred to at the end of his testimony was a special inquiry. When we looked at the role played by DOD and the Air Force in his nonappearance before the Government Affairs Committee on March 1.

In those special inquiries, we have a quick reaction capability and they are designed to bridge the gap between audits and criminal investigations. These noncriminal investigations and administrative inquiries are based on requests from Congress, the Secretary of Defense, or the DOD hotline. They are also begun when we receive complaints or requests for assistance from Federal employees or the private sector. Other elements of the IG may also request special inquiries.

The reports of special inquiries provide findings and conclusions, and, where appropriate, recommendations for action. No information on the report is released until the final report is prepared. Confidentiality and privacy of individuals are protected in accordance with current law. The IG receives a briefing on significant cases, and, when appropriate, signs the final report. These are normally those having service or agency level impact and which cut across department lines.

The rest of my statement, if you want to hear it, deals with the business of information flow, and the role that we have played in that to date.

Senator GRASSLEY. Yes; proceed on that.

Mr. VANDER SCHAAF. We are relatively new. We were established in September 1982, over a considerable debate on what degree of independence we would have, and what degree of control would be available to the Secretary of Defense.

We have done some work on the business of information flow with particular projects where we felt the situation was not working as well as it should. One of those is in the DSARC process, the Defense System Acquisition Review Council process. This is the activity that reviews all major weapons systems in the Department of Defense. All of the major weapons systems go through a process, and a decision eventually has to be made whether we continue or terminate a particular program. The decision has to be based on information flowing up from the lower levels to the decisionmaker, to make sure that the program is still required, that the funding is straight, that the testing has been done, that the engineering work is good, and the program is likely to be successful.

We have done some oversight reviews or audit work in that area, and we have found from time to time the information flow has not been as good as it should be. The Department is attempting to correct this. We have had no difficulty with the administration in terms of saying we have to make some corrections in this area.

We did two other oversight projects dealing with the Defense Contract Audit Agency's work. One of these dealt with the use of the agency by contracting personnel. We found that quite often audits of subcontractor proposals were requested by contracting officers, but when it came time to actually use the work, that the Defense Contract Audit Agency did, the stringencies of the moment led people to go ahead and finalize a contract before all of the information from the subcontractor was available.

In another project we looked at the DCAA's access to contractor information. In that project we found that there were problems in DCAA's access to contractor information from time to time. I do not have the exact numbers in my statement or before me, but I believe we looked at some 28 instances. We looked at 28 DCAA offices, and found that about 13 of the 28 had access to information problems, and we found that three contractors in particular had denied, on a regular basis, the Defense Contract Audit Agency information, over a rather lengthy period of time.

Once again, corrective actions are underway.

With respect to getting information within the Office of the Secretary of Defense and our agency—when we were first established, yes, there were people that wanted to check our turf and say, Mr. inspector general, I do not think I am going to let you have that information. It did not take long before we made our presence known. People backed away from that in short order, and we have not had any significant problems in obtaining information within the Department of Defense.

As you know, we have subpoena power to obtain information from organizations and corporations and persons that deal with the Department of Defense from outside of the Department.

Again, we have had to use that subpoena power, I believe, on 31 occasions since September 1982. Most of those occasions have taken place in the past year. It took us about 6 months to set up a system, but we are well underway in that area.

I think that gives you somewhat of an overview of what we do with respect to how the inspector general gets information. I think I will just stop at this point, and try to answer your questions.

I know Mr. Fitzgerald has raised a number of questions concerning our activities, and the activities of the Department of Defense, and I will try to answer your questions on those matters to the best of my ability, Senator.

Senator **Grassley**. Thank you very much.

Your office released an extensive audit report about a month ago. The report concluded that 42 percent of the number of spare parts are reasonably priced. DOD said only 6 percent of the volume was unreasonably priced. The Defense Department took that to mean the problem is well under control. Is that not correct?

Mr. **Vander Schaaf**. No; I do not believe the Defense Department took that report to mean the problem is under control. In my talking with Secretary Weinberger and Secretary Taft, they believe we have to continue to work at this problem. We have to have a continual cycle of audit and review, put in the new procedures, if that is necessary, in order to correct the problem, and go back and check again.

Yes, we have made a lot of recommendations for changes in spare parts pricing. Remember, this audit took place before those changes went into effect.

The Services, in total, have put into effect 430 specific recommendations within the overall guidelines that the Secretary established last July and August on this whole matter.

Absolutely, the matter is not entirely behind us. We have got to continue to be vigilant, to be sure this overpricing does not continue—first, to make sure it has stopped, and then to make sure it does not reoccur.

Senator **Grassley**. According to your definition of reasonably priced, let us suppose that 100 percent of the spares were reasonably priced. Would you be satisfied, in good conscience, that outrageous prices were no longer being paid?

Mr. **Vander Schaaf**. Let me go back to my definition of reasonably priced, so we are both talking about the same thing.

We concluded if the Department of Defense could have bought an item for less, it was unreasonably priced. In other words, that hammer you referred to earlier could have been bought for less. Therefore, that contract was not reasonably priced.

Another approach was if we had a widget, if it appeared the contractor made the item in his own factory, we would attempt to look at his cost buildup, and then compare the item to the cost buildup.

In some cases we could not establish a good clear cost buildup. When we could, we would look at the intrinsic value against that cost buildup and see if it made sense.

You are going to hear from an individual on Wednesday. One of the items he got interested in was an item that randomly came up in our spare parts audit. It was a $715 diode circuit board. The auditors said, wait a minute, that does not look reasonable.

Yes, you made it in your plant, but we cannot find a good cost history, and we believe a fair, and I think the Air Force auditors agreed, a fair price would be $35 rather than $715. We paid at one point $1,200 for that item.

So under our definition of unreasonable, we were quite strict. All of these items, these horror stories, would have been classified as unreasonable under our definition. I appreciate what you are saying. I was at a conference in Oklahoma City on spare parts, and when talking about reasonableness for the plastic stool cap, someone started off saying it is a safety flight item, because the navigator is a critical flight member. It is almost funny hearing someone try to justify the price. It almost makes you sick at the same time.

No one has attempted to do that in the Department of Defense any longer, that I am aware of.

Senator **Grassley**. As you define the term reasonable, how does that definition compare to what Mr. Fitzgerald is describing through his should-cost approach where spare parts are concerned?

Mr. **Vander Schaaf**. In this case we did not use should cost on every item, but we did look at them for their intrinsic value, which is, to some extent, a should-cost approach.

He takes it further, and puts engineering standards on the amount of time it should take to assemble that item, and then draws some conclusion on what its value or cost should be.

I have no objection to what he is proposing, and I do not think the Department has any objection to using should-cost. In fact, the Air Force directives place a lot of emphasis on the use of should-cost in developing information and pricing for the purchase of weapons systems.

Senator **Grassley**. In regard to this hearing then, the flow of information within a bureaucracy, or even to the Congress, how does the DOD inspector general look upon what has been given us as the absence of flow, or not a good-faith flow, to give forth the information that people need, the information to do the job?

Mr. **Vander Schaaf**. I agree, there are times when information does not flow appropriately, or a person, an individual in the bureaucracy has difficulty in getting that information. But I do not think you can build the whole thesis upon Mr. Fitzgerald's situation. His situation is very unique.

Certainly there are not many employees either at a high level or a low level that have had the publicity, and the other aspects that Mr. Fitzgerald has.

I just would hate to leave you with the impression that we all have the information access problems that Mr. Fitzgerald has, in the Department of Defense.

Senator **Grassley**. What is your judgment, is Mr. Fitzgerald right or wrong on his failure to get information?

Mr. **Vander Schaaf**. I have not done a total review. I think you ought to bring some Air Force witnesses up here to hear their side. I have read his statement. From reading it, it looks like he is having a lot of trouble getting the information that he should have.

Senator GRASSLEY. Is there agreement that that it is his job, to get information?

Mr. VANDER SCHAAF. It is my understanding that that is part of his job, yes, sir.

Senator GRASSLEY. I guess I would ask that the inspector general be very cognizant of the problems he has, and through the independence of this inspector general and other inspector generals in the Federal Government, I would hope that they would use whatever independence they have to see that information is gotten the way it should be, because that seems to me to answer the unique situation of his job and his mission directed by court order.

But surely, it is not a problem just for Mr. Fitzgerald. It has to be a problem for a lot of people, or we would have situations where we would not always be stymied in our effort to get information. Mr. Chauhan is another example that we may be faced with.

I would like to refer to the spare parts chart you have in front of you, referring to the analysis of overpricing of part 1295—duct assembly, and the other, a housing assembly.

I would like to ask two questions, if it refers to the standard labor hour, where it says 7⁷⁄₁₀. Is that reasonable?

Mr. VANDER SCHAAF. I see, Mr. Chairman. I just cannot say if it is reasonable, unless I know something about the part, and take a look at it. I have not seen this material before.

Senator GRASSLEY. It looks like a duct assembly, that looks to be about 2 feet long, from the measurement.

Mr. VANDER SCHAAF. It is very difficult for me to do this right here at the table. We would like to take a look at this and find out if it is unreasonable. Apparently we paid $1,229 for the item. At first reaction that looks like it might be unreasonable.

I recognize the other item, the circuit card, because that was an item that came to our attention on the spare part audit. But this other item, I have not seen it. There might be something unique. It may be it conducts very hot gases, but we would want to establish that before making a determination.

Senator GRASSLEY. Let me refer to the house assembly. You will notice that the Air Force Audit Agency calculated a reasonable price at $471.76. Now, the negotiated price is $200.02. Why is the reasonable price higher than the negotiated price?

Mr. VANDER SCHAAF. I would like to say we had good negotiators on this one, Senator. I do not know why the negotiated price—there are many reasons why this is possible. It is possible that the Air Force—or the Air Force Audit Agency—it is not DCAA—was led to believe it would take 3.6 hours to build this particular housing assembly, and I notice when General Dynamics negotiated a price, they negotiated it at two-tenths of 1 hour, and all those other items, in terms of overhead costs and some of those other things, fall out of the standard labor hour, which has been reduced by a huge magnitude, from 3.6 hours to two-tenths of 1 hour.

Senator GRASSLEY. Mr. Fitzgerald, would you come to the table and give me your opinion as to whether you think these items are reasonably priced, from your standpoint of being an industrial engineer?

Mr. **Fitzgerald**. Mr. Chairman, I would agree with Mr. Vander Schaaf, just based on this amount of information, you could not say for sure.

It looks like on the one where the reasonable price was more than the negotiated price, that they were basing that judgment of reasonableness on what it actually cost. Does it not look that way, Derek?

Mr. **Vander Schaaf**. Yes, it does.

Mr. **Fitzgerald**. I do not think that is a good basis at all for making a judgment. That was the point I was alluding to.

Senator **Grassley**. Whatever you have just said, I will ask you to repeat it. But Senator Heflin has to go. He has been so patient, and changed his schedule to be here today. I want to give him the opportunity to ask the questions he wants to ask.

Would you just stay there, Mr. Fitzgerald, because I will get back to this point you were making?

Senator **Heflin**. I do not have much time, but have you complete access? Are there any restrictions?

Mr. **Vander Schaaf**. Yes, sir; we are given complete access. The law that established the inspector general requires it. There are only four situations in which the Secretary of Defense, and he is the only one, can deny the inspector general access or terminate an audit or investigation, and those relate to an ongoing criminal investigation, an item of national security, an item of intelligence or counterintelligence information. If the Secretary of Defense were to deny access to any information, he and the inspector general would have to report the circumstances to the Congress.

Senator **Heflin**. On pages 17, 18, and 19 of Mr. Fitzgerald's prepared testimony, there is a statement relevant to you and the inspector general, which indicated that maybe you were wanting to know whether it was for his information, or was it for Ernie Fitzgerald. Are you familiar with that?

Mr. **Vander Schaaf**. Yes.

Senator **Heflin**. I would like to hear your response.

Mr. **Vander Schaaf**. I believe I first received a call from Mr. Fitzgerald's associate, Mr. Parfitt, with respect to some information we had provided the Senate Government Affairs Committee that concerned an oversight review of DCAA, and their ability to report potential fraud as a result of audits.

We had looked at the procedures that DCAA went through before they made a referral to a Defense investigative agency, and we took a random sample, tried to be sure that everything was accounted for, that we wanted to make sure that DCAA passed this information quickly to the investigators.

We have issued a report, and that report has been made available. Mr. Fitzgerald asked us if we had kept what are called 12-701 reports, fraud referrals, that the DCAA had, and asked for copies of them. He had, I think, made the assumption that most of them involved labor cost mischarging.

First of all, we did not keep the referrals. We left them with the audit officers, and looked at the workpapers in detail. We then wrote our report. We promised that we would give Mr. Fitzgerald the information which we had, which was merely—what we had left, a list of the items.

The audit reports themselves were in the Air Force areas. I would have had to send people to the field to get those individual audit reports that were already in the Air Force. Some of them may have been relevant. Some of them may not have been relevant.

I think it would have been a subterfuge, wearing the inspector general hat, to go out and get information for Mr. Fitzgerald. It would have been unethical, and not what we are supposed to be doing.

He requested the material and my people sent him the material we had. The material turned out to be not very useful for the purposes Mr. Fitzgerald had in mind, but he is here to speak to that.

Mr. **Fitzgerald**. That was different information. All we asked for was information Mr. Sherick could use in his testimony before the Senate Governmental Affairs Committee, showing that the incidents of suspected timekeeping irregularities had increased in a recent time period. Derek sent us some stuff from an earlier time period. All we wanted was whatever he used in the testimony.

Senator **Heflin**. Did you ever get it?

Mr. **Fitzgerald**. No.

Mr. **Vander Schaaf**. We did not have what he wanted. The testimony, I believe, was that the DCAA has made some 59 potential fraud referrals to the Defense investigative agencies during the past 6-month period, whereas before they had only done 46 over a whole 12-month period.

We looked at the process at DCAA. We did not keep copies of the actual fraud referrals that they made. We wanted to be sure that the process was working, and I just did not have the information that Mr. Fitzgerald wanted.

Senator **Heflin**. At one of our previous hearings, the Defense Contract Audit Agency made audits, and after the audits and the reports were made, then they laid on shelves and were never reviewed. We asked for information concerning the procedures by which the reports from the Defense Contract Audit Agency reports, the audits were reviewed, and we were never able to get much information.

Do you know anything about the procedure within the Department of Defense in reviewing the work product of this Agency?

Mr. **Vander Schaaf**. Yes; most of the DCAA work product is used, it is used a lot by Defense contract officers. We found from time to time there are pressures placed upon a contracting official to hurry with the contract, or for some other reason he feels that the DCAA job was not complete, or from time to time DCAA has issued reports which are too qualified for use. They were not very good for negotiating purposes because they had so many qualifications that the contracting officials could not use them.

But generally speaking, contracting officers make good use of them. We are still much better off with DCAA than without DCAA.

Senator **Grassley**. Thank you, Senator Heflin.

Mr. Fitzgerald, I guess we would go back to that 11⅞₀ hours, and you have a picture of the item we are talking about. What appears to be about 2 feet of duct, and whether or not that is a reasonable amount of time for completion of that job, and if there is anything that would be comparable in the private sector?

Mr. **Fitzgerald**. Senator, just looking at it, I agree with Mr. Vander Schaaf, it is difficult to tell. Let me give you something that is even closer.

If you look at exhibit 2 in my testimony, a TV Maverick missile, the entire missile had 44 standard hours in it. That is a rather complicated little gadget, roughly the same number of hours that is reported to us the Japanese use to assemble a Toyota. It looks a little high, just on that basis.

I do not know what method was employed, and you cannot tell from this picture, whether in manufacturing the item—but certainly as compared to the television Maverick, it looks like it is a little fat, but it is hard to say.

Senator **Grassley**. On this other item, why is the reasonable price so much higher than the negotiated one?

Mr. **Fitzgerald**. I do not understand that at all. If you look at that, they assume that in the case—what they call standard labor hour, they have opposite that committed and actual.

This is our—that assumed that 3.6 hours is reasonable. They abandon that logic when they go to the material. They find when the estimated cost of acquiring was less, they use the negotiated price of the original estimate. It does not make any sense, and it also appears that the auditor did not know what he was doing when he calculated the realization factor. He has it backwards. He should have divided the .2 by 45 rather than multiply. That is not unusual. These folks are in the position of justifying costs, not challenging them. That is why I suggested in my recommendations we did not need them at all.

Mr. **Vander Schaaf**. I think what we have here is what we used to call formula pricing, and the actual worth—the item might be worth more than we paid, if you can believe that, because of the formula, which allocates the costs. This is probably one item from a bigger contract, and when we got the first cost estimate, we got this higher amount. I do not know, but that looks like one explanation.

Senator **Grassley**. What we have here is Mr. Fitzgerald saying reasonable is should cost, and you, Mr. Vander Schaaf, saying reasonable is determined by cost.

Mr. **Vander Schaaf**. No, sir; I am not saying that. There are various ways to determine reasonable. I agree completely with Mr. Fitzgerald, that we have to make better use of engineering estimates and standard hours, and put in work measurement systems to the maximum extent. But you have to compare those to the actuals and analyze the variance between the two, and be sure that your standards are good, and if your actuals are way over your standards, then you better take some corrective action, and update your standards as you go along from year to year, and process to process.

When those two things are done, the two fit together, like hand and glove.

Senator **Grassley**. Mr. Fitzgerald, would you comment on that?

Mr. **Fitzgerald**. I think there is a general tendency, especially on the auditors and the procurement pricing folks, to follow the guidelines that I quoted from our own auditor general; namely, if the contractor spent the money, unless something to the contrary, that is a reasonable price.

In an evaluation of these things, we have seen a number of these. I asked our own auditor general to send me some examples of items on which in-house labor was expended with the big contractors he surveyed, which he considered reasonably priced. He would not do it. I believe your subcommittee staff is making an inquiry.

Mr. **Vander Schaaf**. How did the Air Force auditors conclude that the circuit board was $35?

Mr. **Fitzgerald**. I have no idea. They would not tell me.

Mr. **Vander Schaaf**. They made the determination that it was unreasonably priced.

Senator **Grassley**. I would like to say in conclusion that I have questions regarding your report on Mr. Fitzgerald's March 1 testimony, and I would also like to indicate that I am not satisfied with what I heard today surrounding the circumstances of Mr. Fitzgerald's absence from the March 1 meeting, and it appears that United States Code, title 18, 1505 might be relevant to this case, but that is a matter for the Justice Department to decide.

In conclusion, on the basis of what I have heard here today, I would say that there is a lot of educating to be done about what is reasonable and what is not, what the Department of Defense says is reasonable, and what the rest of America says is reasonable when it comes to the price of spare parts and weapons.

Information flow to the Congress is very key and essential to this and, a willingness to see that information flow has been improved, will be something that the inspector general and DOD can follow through on, because it is very essential, not only for our job in Congress, but Mr. Fitzgerald as well. And if Mr. Fitzgerald has a problem, there has to be a lot of people in DOD that have a problem.

With that, I would like to say thank you.

Mr. **Vander Schaaf**. The duct assembly is apparently, from the Air Force Audit Agency's portion of that spare parts pricing report. It was reported as unreasonably priced.

Senator **Grassley**. That clarification is perfectly legitimate.

Thank you, Mr. Vander Schaaf, for your testimony.

[The following was received for the record:]

PREPARED STATEMENT OF DEREK J. VANDER SCHAAF

Mr. Chairman, Members of the Subcommittee, I am pleased to have this opportunity to appear before you today on behalf of the Office of the Inspector General, Department of Defense, to discuss the subject of information flow within the Office of the Inspector General.

ORGANIZATION OF THE OFFICE OF THE INSPECTOR GENERAL, DoD

I think that it would be worthwhile first to explain the missions and organization of the Office of the Inspector General, Department of Defense, and then talk about how our major projects are carried out. Then I will discuss some of our projects that have touched on the question of information flow in the Department. Finally, I will explain how we deal with problems of access to information, when such problems arise.

The Office of the Inspector General, Department of Defense, was created by statute in 1982. The Inspector General (IG), DoD is under the general supervision of the Secretary of Defense, where he enjoys the same degree of independence as all other statutory IG's. Exceptions were made for sensitive operational plans, intelligence matters, counter-intelligence matters, ongoing criminal investigations by other administrative units of the Department, and other matters the disclosure of which would constitute a serious threat to national security. In these areas, the Secretary maintains the authority to control or stop an investigation or audit. Both the Secretary and the IG are required to report the circumstances to Congress anytime this authority is used. To date, it has never been used.

The duties and responsibilities of the Office of the Inspector General include providing policy direction for and conducting, supervising and coordinating audits and investigations in the Department of Defense. Through these processes, we work hard to promote economy and efficiency in DoD operational programs and attempt to prevent and detect fraud and abuse in them.

In carrying out these responsibilities, we are organized into six Assistant Inspectors General, with three major operating areas: one each for Audit, Investigations and Inspections. In addition, we have two offices that provide policy and oversight for all DoD audit and criminal investigative activities. Finally, we have established a followup office to ensure that agreed-to audit and investigative recommendations are in fact carried out.

It is the responsibility of the IG to keep the Secretary of Defense and Congress fully and currently informed by means of semiannual reports and otherwise concerning fraud and other serious problems, abuses and deficiencies relating to DoD programs and operations.

The IG also has the responsibility to report immediately to the head of the Department whenever he becomes aware of particularly serious or flagrant problems, abuses or deficiencies relating to the administration of programs and operations of the Department. The Secretary of Defense must transmit this report to Congress within seven calendar days together with any comments he deems appropriate.

The IG is also required by law to submit a statement to Congress if the Secretary of Defense exercises his authority to prohibit the IG from initiating, carrying out or completing any audit or investigation or from issuing any subpoena if the Secretary determines that such prohibition is necessary to preserve the national security interests of the United States. The Secretary of Defense must also advise Congress of his reasons for exercising his authority to prohibit the IG from pursuing a particular matter.

That describes, in very brief terms, our mission and how we are organized to accomplish it. I now want to turn to a description of the projects we do and describe the process by which they are initiated, carried out and acted upon.

PROJECTS UNDERTAKEN BY THE OFFICE OF THE INSPECTOR GENERAL, DoD

Let me first describe the five main types of projects undertaken by the IG's office. I refer here to audits, inspections, oversight reviews, criminal investigations and special inquiries. Audits, of course, involve not only the examination of financial statements, but also work done in reviewing compliance with laws and regulations, economy and efficiency of operations and effectiveness in achieving program results.

An inspection is an examination of a command, activity or function conducted for the purpose of evaluating matters that affect mission performance. There are many different types of inspections, but virtually all may be broadly categorized as either unit-oriented or function-oriented.

Oversight reviews are evaluations of an organization's quality control policies and procedures. In these reports, we determine if DoD audit, inspection and investigative organizations are following established policies and procedures. We particularly look for systemic weakness needing correction.

Criminal investigations involve gathering testimony from witnesses and documentary and physical evidence to prove or disprove allegations of criminal wrongdoing.

A special inquiry is similar to this but it normally does not involve a criminal violation. Thus, the procedures for a special inquiry can be less formal, although sworn testimony is often taken.

INITIATING AND CARRYING OUT PROJECTS

I can probably best discuss the process by which these projects are initiated and carried out by talking first about audits, inspections and oversight reviews, and then turning to criminal investigations and special inquiries. I split them up this way because the first group is more planned or "proactive" in nature while the second group is more reactive to events. The final products of each group share certain characteristics.

In general terms, an audit, inspection or oversight review is initiated in one of three ways:

-- to comply with specific statutory requirements;

-- as a result of requests from outside the OIG;

-- self-initiated to meet a clear need through our own research or from referrals within the OIG.

The main type of project required by statute are audits of internal control and accounting systems required by the Federal Managers' Financial Integrity Act (FMFIA), Public Law 97-255.

Requests for projects come from a variety of sources. During our planning process for an upcoming fiscal year, we solicit suggestions from DoD elements on what areas they believe require coverage by the IG. In response to our "call" in December 1983, more than 150 suggestions were received. Additional requests come from the Congress and the Secretary of Defense. An example of the former is a recent review of DoD 1983 year-end spending practices. One notable project initiated by a request from the Secretary of Defense is the recent audit of spare parts procurement.

The third area, self-initiated projects, make up over half of our workload. We internally generate projects in a number of ways. In some cases, one component of the office will refer topics to another area. For example, the Assistant Inspector General for Audit Followup or Inspections may, in the course of their work, uncover something requiring audit coverage. Similarly, criminal investigators may uncover systemic weaknesses in the course of an investigation and forward the suggestion to the auditors or inspectors.

In addition to these internal referrals, resources are devoted in each IG component to research activities intended to uncover fruitful areas for review. Part of this activity involves recommending new projects arising out of prior activities and congressional or executive branch interests.

All suggestions and ideas for future projects are reviewed prior to putting together our IG plan for the upcoming fiscal year. We attempt to develop a plan that, in conjunction with Service activities, provides complete coverage of Department activities on a cyclical basis, addresses the most important issues in DoD, and minimizes any overlap with the General Accounting Office. During its execution, we adjust the program to accommodate changes in circumstances and new high priority requests from the Secretary of Defense and the Congress.

PREPARING AND PROCESSING REPORTS

The process for preparing and processing reports varies among audit, inspection and oversight projects. Let me briefly discuss each.

Audits are conducted by a team of auditors, and sometimes other professional staff, headed up by a project manager. If the initial survey indicates a systemic weakness, a full audit of the area is done. After the field work is over, the project manager, along with the program director, who is responsible for all audits in a given subject area, prepare the initial report. This report is then staffed through the Auditing organization before the draft report is released for comment.

Final reports are signed out by the Assistant Inspector General for Auditing or by the IG or Deputy IG, depending on their significance. Briefings are given to high level staff on the progress of audits and significant findings in draft and final reports. After a report is released, we enter them into our system for resolving disputed findings and following up on audit recommendations.

Inspections vary greatly in their scope. We may examine entire organizations such as the Department of Defense Dependent's Schools or look at a single property disposal office. In any case, a report of the inspection is given to the head of the activity before we leave. The report contains findings of varying significance, and it may also contain recommended actions. Unlike audits, we encourage but do not require implementation of our recommendations. To this end, we are establishing a followup function within the Audit Followup office to review actions taken on inspection findings.

Oversight reports, like audits, are staffed by the office involved and then released for comment to the activity examined. The final report is then prepared based on comments received. We follow up on our oversight reports.

CRIMINAL INVESTIGATIONS AND SPECIAL INQUIRIES

As I mentioned before, criminal investigations and special inquiries differ from the other kinds of projects we do in that they are more reactive in nature. While we can plan in advance for the relative amount of resources to be devoted to these areas, we generally do not know the specific areas where work will take place.

Criminal investigations are generally initiated in one of four ways:

we often [illegible]

- from referrals from another investigative organization;

[illegible] audit [illegible]

- from information received from the DoD Hotline or other sources; [illegible]

- through leads uncovered in the course of other criminal investigations, fraud prevention surveys, inspections and audits;

- through analysis of past work which identifies areas needing further attention.

Once a promising lead is obtained, the case is assigned and the investigation proceeds. Following completion of a preliminary investigation, discussions are held with the appropriate U.S. Attorney or Assistant U.S. Attorney to determine if the case should be prosecuted. When a decision is made to prosecute, we work closely with the Department of Justice to prepare and present the case. ①

Special inquiries give the IG quick reaction capability and are designed to bridge the gap between audits and criminal investigations. These non-criminal investigations and administrative inquiries are based on requests from Congress, the Secretary of Defense, or the DoD Hotline. They are also begun when we receive complaints or requests for assistance from Federal employees or the private sector. Other elements of the IG may also request special inquiries.

The reports of special inquiries provide findings and conclusions, and, where appropriate, recommendations for action. No information on the report is released until the final report is prepared. Confidentiality and privacy of individuals are protected in accordance with current law. The IG receives a briefing on significant cases, and, when appropriate, signs the final report. These are normally those having service or agency level impact and which cut across department lines.

PROJECTS DEALING WITH INFORMATION FLOW

Mr. Chairman, we do not normally audit or directly examine issues of information flow and denial. However, several recent audits and oversight reviews have addressed these issues.

Our auditors are working with the Service auditors on a continuing review of the Defense System Acquisition Review Council (DSARC) process. The DSARC consists of senior managers in the Office of the Secretary of Defense who perform oversight of the development and acquisition of major weapon systems. We have reviewed two DSARC decisions on weapon systems in each of the Services and will continue to review both new starts and major milestone reviews. Each audit examines if the DSARC principals receive complete and timely information in making its decisions. Our audits have found that it frequently has not, and DoD is taking action to correct the problem. We will continue our audits to examine corrective actions.

We did two oversight projects that are relevant to the issue. The first looked at the Defense Contract Audit Agency (DCAA) audits of subcontractor's proposals. We found that when DCAA performed these audits, they provided timely and quality audit assistance to contracting officers. We also found that contracting officers often failed to have DCAA audit subcontractor's proposals, even though they should have. Thus, the Government did not seek information which it needed to help ensure that the contracting officer was negotiating from a fully informed position. This report was cited in a memorandum issued by the Deputy Secretary of Defense emphasizing the need for adequate evaluation of contractor proposals.

The second project looked at DCAA's access to contractor information. Although we found several problems where DCAA had not obtained access or had qualified its reports extensively, we recognized that DCAA had begun to correct the problem. DCAA continues to correct the problem by meeting with problem contractors and emphasizing to their auditors that they should promptly question and/or suspend cost amounts unsupported due to lack of access to records.

Mr. Chairman, there are probably many other audits or oversight projects that touch on the issue being discussed today, even though the auditor project itself was oriented towards other issues. I want to assure you that in any of our IG, DoD projects where we discover problems of information flow to DoD managers, auditors or investigators, we have and will continue to raise the issue and recommend corrective actions.

ACCESS TO INFORMATION

In order to carry out any of our projects, it is essential that our office have access to the information needed to get the job done. This fundamental requirement is reflected in Section 6(a)(1) of the Inspector General Act of 1978, wherein the IG is authorized "to have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the applicable establishment which relate to programs and operations with respect to which that Inspector General has responsibilities under this Act." The only exceptions to this provision were mentioned in the beginning of my statement. For organizations that conduct business with the DoD but are not a part of the Department, we have the subpoena power to compel the provision of documents and records but do not have subpoena power to compel testimony.

Given the importance of this area, I am pleased with the interest of this Committee. I am happy to report that we in the IG's office have had no serious problems with access to information. Initially, as we came into being, there were challenges to our authority. It usually, however, only took a very short time to let people know what our authority was and obtain access. Access to records is no less important for the Service audit, inspection and investigative organizations. We are currently looking at ways to strengthen Department directives in this area.

This, then, gives you an overview of our office and describes how our major activities are carried out. I will be happy to go into more detail on these matters in response to your questions. Mr. Chairman, this concludes my formal statement.

Senator **Grassley**. Our next witness is Mr. John C. Keeney, Deputy Assistant Attorney General, Criminal Division, U.S. Department of Justice.

Since we are running short of time, Mr. Keeney, could you summarize and submit your statement?

STATEMENT OF JOHN C. KEENEY, DEPUTY ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, U.S. DEPARTMENT OF JUSTICE, ACCOMPANIED BY RICHARD SAUBER, HEAD OF THE DEFENSE PROCUREMENT UNIT, U.S. DEPARTMENT OF JUSTICE

Mr. **Keeney**. Thank you.

With me is Richard Sauber, who is Head of our Defense Procurement Unit.

Senator **Grassley**. You may sit there for counsel.

We thank you for saying for the record who your associate is.

Mr. **Keeney**. Briefly, my statement reflects the fact that in August 1982 there was created within the fraud section of the Department of Justice a DOD Procurement Unit, in conjunction with the various components of the Department of Defense. We work very closely with the Defense Audit Agency, and with the inspector general. We have lawyers from the various DOD components, and also lawyers from our Civil and Criminal Divisions.

I set that forth because the audit in the Defense Department in this operation is a very core ingredient. The Audit Agency is absolutely essential to unraveling some of the problems that you have been discussing today.

I have given you in my statement some examples of new types of cases we have uncovered with our efforts, some of them before the Unit was created, but all of them fairly recently, and those are in the area of mischarging and defective pricing.

Mr. Chairman, that briefly summarizes my statement. If you have any particular questions, I would be glad to try to answer them.

[The following was received for the record:]

PREPARED STATEMENT OF JOHN C. KEENEY, DEPUTY ASSISTANT, ATTORNEY GENERAL, CRIMINAL DIVISION, U.S. DEPARTMENT OF JUSTICE

I would like to thank the committee for giving me the opportunity to testify today concerning our intensified efforts to deal with fraud on the DOD procurement process particularly in the area of accounting fraud schemes.

In August 1982, Attorney General Smith with the support of Secretary Weinberger established the DOD Procurement Fraud Unit in the Fraud Section of the Criminal Division. The Unit brings together investigators from the Army, Navy, Air Force and Inspector General, auditors from the Defense Contract Audit Agency (DCAA), attorneys from Army, Navy and Air Force and Defense Logistics Agency and prosecutors from the Department of Justice. The Unit is designed to utilize the experience it develops working with the Defense Department to enhance our procurement and prosecutive expertise level and apply it to screen cases and identify and investigate the most significant fraud and corruption cases. These include product substitution, inflated prices for spare parts, corruption, and a variety of other fraudulent schemes. This experiment of combining various talents and interests is working and has already made substantial improvements in our enforcement efforts.

In addition to our new unit, over the past six months, we have developed with the Department of Defense a revamping of the enforcement relationships between the two Departments. The Secretary and the Attorney General will execute a revised Memorandum of Understanding in the next several weeks which will increase the overall commitment of investigators in the FBI and the Department of Defense to major fraud and corruption cases.

In our intensified investigative efforts, we have discovered certain vulnerabilities to the procurement system which are reflected in our expanded prosecutive priorities. Certain areas of the procurement process heretofore ignored deserve our closer attention. One such area is what is called mischarging. Mischarging is the false description and manipulation of costs in a cost-type contract with the United States. The first mischarging case prosecuted was in Boston. An otherwise well respected and important player in the procurement process pleaded guilty to overcharging the government $2 million dollars over a period of two fiscal years. In that case not only was the corporation prosecuted but so were the two senior vice-presidents responsible for the firm's financial matters. More recently, another well respected and even larger Government contractor pleaded guilty in Minnesota to criminal mischarging with a substantial civil settlement and fine. A broad based management undertaking to reform the contractor's past accounting practices was incorporated in the settlement agreement. Both corporations were well regarded in terms of the overall quality of their product and recognized as important to our overall national defense effort.

A second area, even more recently discovered is defective pricing. Earlier left to the administrative and civil processes, we are discovering certain cases where cost and pricing data submitted by government contractors was intentionally false. Without the added deterrent of the criminal process, contract auditors complained the administrative and civil remedies did not provide sufficient incentive to deter defective pricing. In February, a well known corporation pleaded guilty to charges of this kind in District Court in Alexandria, Virginia. We hope this prosecution and others to follow will lend added credibility to the certification procedures incorporated in the Truth in Negotiation Act.

The critical player in our increased enforcement in this area has been the Defense Contract Audit Agency.

Together with the General Counsel of the Defense Logistics Agency and the Inspector General in the Department of Defense, we have placed a high priority on fraud schemes identified by the contract auditor. This priority treatment has only been possible with the support and leadership of the Defense Contract Audit Agency.

The detection of alleged mischarging and defective pricing schemes is dependent largely on the DCAA audit process. With broad scope of access to a contractor's records by contract and regulation as well as a physical availability to receive allegations from disaffected contractor employees, the contract auditor is the principal detector of mischarging. The contract auditor for a number of purposes has access and responsibility to examine contractor's books and records to evaluate the accuracy of costs of interest to the United States. In exercising his right of access and fulfilling his audit responsibilities, the contract auditor normally either receives allegations from an employee or identifies records that raise questions concerning the integrity of the contractor's accounting systems. The on-site floor check has proven to be an invaluable audit technique. Computer examination of contractor charging practises is another approach to verify charging practises.

The responsibilities of the contract auditor in such a position are set out in the Defense Contract Audit Manual. The auditor who "uncovers or is alerted to any circumstance indicating fraud or other unlawful activities" is charged with a duty to pursue using "generally accepted audit procedures." This does not include any investigative responsibility. The auditor is required to carefully protect the information and, pursuant to a recent memorandum, is required to notify an investigative field unit promptly. The auditor prepares a formal report describing the suspected fraud and the amount of money involved.

Copies of all referrals are sent to the appropriate investigative agencies, the Defense Logistics Agency (DLA) and the Fraud Section of the Criminal Division. The DLA General Counsel has played a critical role in identifying the most promising mischarging cases and providing expertise to the investigators and prosecutors, as well as coordinating the various criminal, civil and administrative actions. The number of referrals from DCAA has increased and the team investigation concept including the auditors, and investigators from the FBI and Inspector General has markedly improved our ability to detect, investigate and prosecute these matters.

I would be happy to respond to any questions members the Subcommittee may have.

Senator **Grassley**. Thank you very much for your testimony.

I want you to know I appreciate your appearance here today, and I say that because at one point the Department of Justice had declined to appear because the feeling was it had no role in this topic, but I am glad to say that the Department of Justice has reconsidered its position, and did have you come to visit with us on this very important issue.

Just to clarify the issue of the Department of Justice's role, can you tell me if the Department of Justice is ultimately responsible for the enforcement of the statutes we have discussed here today?

Mr. **Keeney**. We are.

Senator **Grassley**. How many times has the Department convicted for fraud in defense contracts in the past year?

Mr. **Keeney**. Mr. Sauber will tell you.

Mr. **Sauber**. It is only an approximation, but I would say in procurement fraud matters, there are some 40 or 50 prosecutions in the last year across the country.

Senator **Grassley**. If you cannot give a specific number, I would ask that you submit it for the record. We did give advance notice of the question, in the hope that the information would be available, so will you submit that in writing then?

Mr. **Keeney**. For the last fiscal year?

Senator **Grassley**. Yes. Would those statistics generally be kept by fiscal year or calendar year?

Mr. **Keeney**. Usually fiscal year.

Senator **Grassley**. Then you are in no position right at this moment to tell us how much has been collected in fines, penalties, and restitution resulting from those prosecutions?

Mr. **Keeney**. We will give you that in the written report.

Senator **Grassley**. Let me say, and these, naturally, would not be very firm figures, and I want the record to show that I am speaking from memory only, and it may not be accurate, but it seemed to me like we talked of 650 convictions, with $14 million of fines being brought in.

We do not want to belittle any attempt to get at fraud and abuse of contracts, and all of those things, but that is only about $20,000 per instance, which seems to me to be peanuts compared with the billions of dollars that have been testified today that are being wasted.

Now, when we talk about waste, I know that does not necessarily mean fraud. I am not trying to imply that, but it seems to me like we should not gloat to too great an extent over $14 million when it comes out to $20,000 per case, when it looks like we have a great deal of abuse of authority, abuse of costs that have been presented here today.

How many times has the Department of Justice investigated and prosecuted using United States Code, title 10, Sec. 2276, the statute cited earlier, when imposing sanctions for obstruction of a full and free audit of aircraft construction?

Mr. **Keeney**. Never. Let me explain why. If we came into a situation like that, where there appeared to be an obstruction or a falsity in connection with the documents produced, we would be interested in that, naturally, but we would be interested in it in a broader sense. We would want to know who is responsible, not the individual accountant or clerk who made the entry, but who is ultimately responsible, what the purpose of the false entry was, and what they were covering up, and we try to get and unravel the whole situation, so the statute itself has not been used, but that is the reason for it.

Senator Grassley. Let us assume that $650 and $14 million, $20,000, those figures I just gave, are accurate enough. I would like to refer to Secretary Weinberger as my source for that, and also I would like to quote, not in jest, but in seriousness, something Jonathan Swift said.

Laws are like cobwebs, which may catch small flies, but let hornets and wasps through.

I am concerned. A prosecutor from your Special Fraud Unit was recently quoted as saying, "We are not really interested in the big companies. It is just easier to make a case against the smaller contractors. It is just not as complicated."

Could you respond to that?

Mr. Keeney. It is easier to make cases against these small companies, but even from reading the newspapers it is clear that, we have made cases against the largest companies in the procurement area. Somebody may have made that as a flippant remark, but that is not the way we operate. But it is easier to make a case against a small company, because you are dealing with small matters, and not as much audit material to unravel, and you can focus your audits better. That is not the purpose of our operation, nor the way we operate.

Senator Grassley. Thank you for your view, and thank you for the fact that you have been willing to challenge major contractors in the case of fraud.

Could you tell me how many times the Justice Department has prosecuted what you consider a major contractor for the Defense Department?

Mr. Keeney. I think we can give it to you for the past year.

Mr. Sauber. It depends on what the definition of major is. The focus of the Unit has been major contracts misallocating labor charges, what we call mischarging, and the bulk of our effort has been in that area.

Again, it is an estimation, three or four prosecutions that my Unit has processed in the past year that have been focused on what we considered to be major contractors. Those are successful prosecutions.

There are at that point 60 or 70 cases that the Unit has under investigation, and many of those are major contractors.

Senator Grassley. I will ask for a specific list of that be submitted in writing.

Mr. Sauber. Of the successful prosecutions?

Senator Grassley. Yes.

Mr. Keeney. I might add, the mischarging cases take a great deal of work, a great deal of time, and the number of convictions is limited, but the salutory impact of bringing those cases is tremendous. The industry gets the message, and hopefully, a practice that has been going on is now less of a problem than it has been in the past.

Senator **Grassley**. In regard to the *Sperry Rand* case the judge is incensed that only about one-fourth of the overcharge was actually accepted from the contractor. Is that right?

Mr. **Sauber**. It is correct a judge has expressed some dissatisfaction. The facts are absolutely incorrect. One hundred percent of the charges involving the criminal prosecution were recovered. Double the amount of the damages were also recovered as part of the settlement, and what the judge referred to was other audit matters that were not criminal, that were unresolved, that are still unresolved, between the company and the Air Force.

Senator **Grassley**. I think we ought to be cognizant of what that is saying to others in this country. It would appear to me that is not a very good track record, and fertile ground for further investigation.

In your opinion, do any of these circumstances outlined today in Mr. Fitzgerald's testimony constitute a violation of the testimony influencing your audit obstruction statutes we have cited?

Mr. **Keeney**. Insofar as Mr. Fitzgerald's difficulty in getting information?

Senator **Grassley**. Yes.

Mr. **Keeney**. I would assume if they did come near an obstruction, that the inspector general would have brought it to our attention. The inspector general testified, Mr. Grassley, to the effect that he is having no difficulty getting access to DOD materials generally, and there have only been four instances in which the material has been held back, and that was held back specifically by the Secretary of Defense, who has to report to the Congress in respect to holding it back.

Now, he also suggested, I think, that some of the problem Mr. Fitzgerald had—I think he was implying that it might have been a personality problem.

Senator **Grassley**. Are you saying that you rely on DOD IG in this matter?

Mr. **Keeney**. We rely on DOD IG to bring to our attention matters that may have criminality.

Senator **Grassley**. What about his court order that would give him access to information in his job? Is there any violation of that?

Mr. **Keeney**. I do not know. The court order reinstated, as I understand it, reinstated Mr Fitzgerald to his position, and as I understood from what you read today, and it is the first time I was aware of it, it reiterated his authority to act in the Air Force in an audit capacity, oversight capacity.

Based upon what I have heard, I do not see a criminal violation of law, Mr. Grassley, but that would be subject to further hearings by the committee, and further information being developed. But as of now, I do not see it. There may be undeveloped facts that would change my opinion.

Senator **Grassley**. My point is this, and I think it is very simple, as I have stressed so many times today, I firmly believe that Congress needs access to information, if it is to analyze and evaluate appropriately, as we are directed to by law.

The taxpaying public, and our constituents, have faith—I should say have to have faith in my judgment that we are making responsible decisions on their behalf. I think we would be greatly disappointed to think that we are making decisions while only privy to a fraction of the whole picture.

What appears more and more clear as I pursue this issue of access to accurate information is that many individuals, are involved in blocking that access—I think that is wrong, and our laws ought to say that is wrong. I think the laws we have looked at do say that is wrong, and if they do not, I would like your advice on how to change them.

What is more important is whether these laws are being enforced. I want to know how we can enforce them fully, to prevent the abuses that are now costing the taxpayers billions of dollars.

If these laws are not adequate to see that that information is going to get to us, then I need your advice as a legal advisor, how these laws ought to be changed, or if the laws are adequate, why are they not being enforced?

Mr. KEENEY. Senator, you are entitled, if the system is going to work, to have access to all governmental agencies, and if there is a deliberate withholding of material, without a valid basis, then the criminal statutes would come into force.

I have not heard anything here today that suggests that you are deliberately denied information. Even in the case of Mr. Fitzgerald's testimony, I would find difficulty in finding any criminal intent on anybody's part to keep him from testifying.

If I understood correctly, I think Senator Metzenbaum outlined it, the Air Force was willing to have Mr. Fitzgerald testify. There was some question as the capacity in which he would testify. If that is the situation, and I am relying on his statement of the facts, I would find great difficulty in finding that anyone had a criminal intent to withhold information from the Congress.

Senator GRASSLEY. What about attempts to influence that testimony?

Mr. KEENEY. I have not heard much on the attempt to influence. If somebody tried to deliberately influence, get somebody to testify falsely before the Congress, that is a crime, Mr. Chairman, but I have not heard that in listening to the testimony so far.

Senator GRASSLEY. Well, I do not think I will go into any greater length on it. I think the subpoena was necessary because of attempts to discredit testimony, to cause Mr. Fitzgerald, or their wanting Mr. Fitzgerald to testify in his personal capacity as opposed to his position with DOD. I think it very much is involved with Mr. Fitzgerald's court order. The court order was agreed to by the Justice Department on behalf of the Air Force, granting him legal authority to do his job.

The Justice Department represents the defendants in the original *Fitzgerald* case. This more recent case, as he relates it to us today, is very compelling. It leaves fertile ground for investigation.

I would like you to explain to me how the Justice Department can represent the defendant, that is, the Air Force, in the original *Fitzgerald* case, which is still governed by the court order, and on the other hand, do a fair investigation of the facts, if the Air Force, is breaking the law now in abiding by that order?

Mr. KEENEY. Senator, I know very little about Mr. Fitzgerald's initial suit, and handling of it in the Civil Division of the Department of Justice. I am telling you, Senator, if you have evidence indicating that there was an attempt, a serious endeavor to influence in a material way the testimony of anybody that was to appear before this committee, that we will take it very seriously.

Senator GRASSLEY. I think then it is the responsibility of several of us to make that point more clearly, and we will have to wait then for the appropriate opportunity. But I would hope that the Justice Department would look at the specific laws as they are stated to protect from efforts to keep information from proper officials, and efforts to dampen or chill testimony before Congress.

I would hope, too, that you would be cognizant of some of these problems alluded to, or, really, that there is a function there for the Department of Justice, to see that the statutes are being enforced, and protection given to people that is actual and not just perceived.

I want to thank you, Mr. Keeney, for your testimony, and say, thank you for appearing. A free and open government needs a free flow of information to function properly.

Yet, it is abundantly clear that despite agencies and laws that exist, cost information gets blocked and obscured. This is an explanation why deficits keep rising while the cost is rising.

In the case of Mr. Fitzgerald, valuable information was kept from him and from the public through the normal process. That information measures the protection—the inefficiencies of our defense dollars. The only way it surfaced was through the extraordinary intervention of the Senate subcommittee. Something must be amiss.

First, Mr. Fitzgerald is unable to perform his job. Second, his testimony relating his findings to the Congress is repeatedly influenced. These both seem to be very clear violations of the law.

The DOD inspector general either ignores or is unaware of these violations, and the Justice Department is rendered helpless because of seeming conflicts of interest. We are custodians of the system. We are accountable to no one but the taxpayers. But I wonder, are we really custodians, or merely bureaucrats.

This is all I request of you, Mr. Keeney, and other witnesses. In our next hearing the General Accounting Office will instruct this Committee on how the incentive system is set up, and Mr. Ompal Chauhan, with the Air Force Contracting Management System, will tell us what happens because of those incentives. I hope the Justice Department representatives attend that hearing so they will have a clearer picture of what we are referring to. Thank you very much.

Senator GRASSLEY. The meeting is adjourned.

[Whereupon, at 12:55 p.m., the subcommittee adjourned, subject to the call of the Chair.]

AVAILABILITY AND RELIABILITY OF AGENCY INFORMATION

WEDNESDAY, JUNE 27, 1984

U.S. Senate,
Subcommittee on Administrative
Practice and Procedure,
Committee on the Judiciary,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:21 a.m., in room SD-226, Senate Dirksen Office Building, Hon. Charles E. Grassley (chairman) presiding.

Present: Senators Grassley, Specter, and Heflin.

Staff present for Senator Grassley: Lynda Nersesian, chief counsel and staff director; Kris Kolesnik, legislative assistant; Lisa Hovelson, legislative assistant; Veronica Gonzales, legislative aide; Ed Merkle, legislative aide; Anne Harris, professional staff; and David Drury, professional staff.

Staff present for Senator Heflin: Jo Margaret Mainor, counsel.

OPENING STATEMENT OF SENATOR CHARLES E. GRASSLEY

Senator Grassley. I would like to call this meeting of the Subcommittee on Administrative Practice and Procedure to order.

I thank the number of people who are in attendance today. The people who were also present Monday, this is a continuation of that hearing.

Today's hearing is a further investigation into the structure of information flow to Congress. These hearings are concerned with laws and institutions that protect information flow to Congress; if the system is running smoothly; what information is not getting through the channels; and what the consequences are of not getting this information.

Today, we will hear testimony from Mr. Ompal Chauhan, Chief of the Manufacturing Operations Assessment Branch, Air Force Contract Management Division, Wichita, KS; and from Frank C. Conahan, Director, National Security and International Affairs Division, General Accounting Office.

Based on the testimony received before this subcommittee just 2 days ago, it is evident that the flow of information to Congress is in fact being impeded. Furthermore, there are discrepancies between what the Defense Department says occurs, and what actually does occur. There is mounting evidence that verifies this contention.

On Monday we heard the testimony of A. Ernest Fitzgerald, Financial Management Systems Deputy of the Air Force, who told us he has never seen a weapon system whose cost could not be cut at least 30 percent. Mr. Fitzgerald also related to this subcommittee instances in which he has been denied access to cost information by what he described as the "blue curtain." If true, this is a direct violation of 10 U.S.C. 2276.

The Defense Department inspector general admits this problem exists, but it does nothing. The Justice Department testified as well, and is caught in a conflict of interest and ignores the problem. The entire system hears no evil, and sees no evil, and of course, cures no evil.

There is an inherent contradiction in the system. The system is ostensibly set up to prevent exactly what is actually happening. The Defense Department bureaucrats tell us what is happening is not happening, despite the fact that their own data tells us it is happening.

The information testified to by Mr. Fitzgerald on Monday and by Mr. Chauhan today, and the data I released Monday on specific weapon systems is irrefutable. It reveals tens of billions of dollars of pure waste.

The only response so far from the Defense Department has been an ad hominem attack—that Senators who expose waste are grandstanding.

When bureaucracies cannot win a case on the merits of the facts, they resort to attacks on the individual. We have yet to hear a plausible refutation by DOD of the facts.

In other words DOD ought to simply say where is Mr. Fitzgerald right, or where is he wrong. Today they ought to say where is Mr. Chauhan right, or where is he wrong.

At this point I would like to compliment so many Senators of this subcommittee who have participated in these hearings thus far, and turn now to Senator Specter for any opening comments he has, and then to Senator Heflin.

Senator **SPECTER**. Thank you, Mr. Chairman.

I am joining you at this hearing today in response to your request to do so on the issuance of subpoena. I think that it is very important that there be a full inquiry and that all of the facts be set forth.

I personally regret the necessity to have a subpoena issued, but the subpoena power has been vested in subcommittees such as this one for a very important purpose, and that is to compel the attendance of witnesses, and to compel the production of testimony and documents, and whatever evidence there may be, to shed light on subjects of great importance.

There can be no doubt that the question of the overall Department of Defense authorization and appropriation is a matter of enormous magnitude, considering that expenditures now exceed the $260, $270 billion range annually. The Congress has a fundamental responsibility to our constituency to consider the high taxation policies, and the very extensive governmental expenditures, and the deficits, so I have responded today to make a quorum for the issuance of this subpoena, and I think that it is very important that this subcommittee get to the facts, and expose them, wherever they may lead.

Thank you, Mr. Chairman, and I commend you for your diligence.

Senator GRASSLEY. I thank you not only for your cooperation and help in making a quorum, but you have been advising me very much on this issue, and I appreciate your encouragement.

Senator Heflin.

Senator HEFLIN. Mr Chairman, the testimony heard before this committee on Monday on the gross overpricing of Air Force weapons systems and spare parts, purchased in connection with some of the systems and projects was most revealing and shocking to me. The extent of the problem, as presented by the witnesses, is staggering.

I hope that the testimony of our witnesses today will help us get to the root of the problem so that we can ensure that our national defense system is as economical, and as efficient, as the American people expect and deserve.

I again commend you, Mr. Chairman, for focusing the attention of Congress, and indeed, the Nation, on this unconscionable waste of taxpayers' money.

I do not know, but from reading between the lines in some of the statements made in the media releases and press accounts of the hearing on Monday, and from comments by high ranking officials, it seems that you may be experiencing tremendous pressure. However, I want to congratulate you on your tenacity and your continuing effort to try to get to the root of this problem, and I believe there are problems here.

I hope the Department of Justice and the FBI are monitoring these hearings. It seems to me that sometimes a community needs to be shaken up; I am referring in this instance to the community of the defense contractors. It seems to be an illness that is widespread, that is contagious, and that has spread to many of the defense contractors, and I think that if we are going to cure it, it is going to take some drastic action by the administration, in specific by the Department of Justice.

I again commend you for your tenacious leadership in pursuing this, and trying to get to the bottom of it.

Senator GRASSLEY. Once again, thank you for your cooperation and encouragement, and also legal advice, as we have proceeded down this route that we have taken thus far.

I would like to have us begin today's hearing with the testimony of Mr. Ompal Chauhan, Chief of the Manufacturing Operations Assessment Branch of the Air Force Contract Management Division in Wichita.

Mr. Chauhan, would you come to the witness table, and I would like to say for the record that Mr. Chauhan's testimony has been subpoenaed, and I would like to also remind Mr. Chauhan, that you are under oath, so we ask you to be aware of that.

I have asked Senator Specter to swear you in—will you stand?

Senator SPECTER. Raise your right hand.

Do you solemnly swear that the testimony that you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CHAUHAN. I do.

Senator GRASSLEY. Thank you, Senator Specter.

Mr. Chauhan, would you proceed now, and I want to say that as a matter of normal procedure, your entire statement is included in the record.

We want you to be as thorough as you need be. To the extent to which you can summarize, we would appreciate it, but I will let you be the judge of that, because this testimony is so important.

Also, I see you have charts. Are you going to have to stand up here, or sit up here?

Mr. CHAUHAN. Yes, later on.

Senator GRASSLEY. OK, then please proceed, please.

TESTIMONY OF OMPAL S. CHAUHAN, CHIEF, MANUFACTURING OPERATIONS ASSESSMENT BRANCH, U.S. AIR FORCE CONTRACT MANAGEMENT DIVISION, DEPARTMENT OF DEFENSE, DETACHMENT 34, WICHITA, KS

Mr. CHAUHAN. Mr. Chairman, the testimony I am about to present expresses my own views, and does not necessarily express the views of the Air Force, tne DOD, or the policy of the DOD. I have been asked to make that statement to clarify the position of the Air Force.

Mr. Chairman, also with your permission, I would also like to make small editorial deviations, and some deviations in the figures which I submitted to you, based on the recommendations yesterday I received from the Air Force. It does not alter or change my testimony, or the substance there of.

If it is OK with you, I would like to do that.

Senator GRASSLEY. OK.

Mr. CHAUHAN. Mr. Chairman, I would like to address this committee on the matter of availability and reliability of Government information. At the close of my remarks I will answer any questions, and please interrupt me, if you need any clarification during the course of my discussion.

It is my belief that due to the lack of availability and accessibility of information to Government personnel, overpricing and overspending are occurring. It is my experience that access to information on Government contracts is routinely denied by contractors without penalty or adverse action by the Government.

Senator GRASSLEY. OK. Now, that observation you are making is one of the main points of this hearing—the free flow of information.

Mr. CHAUHAN. Yes, sir.

As an example, I would like to cite inaccuracies in the Boeing Military Airplane Co.'s cost accounting system. I would also like to discuss in regard to this example what I believe to be gross mismanagement by involved Government personnel. I wish to stress I am not singling out Boeing for criticism. It is my belief such inaccuracies as I will discuss are endemic to our current system.

In January 1981, while working as a general engineer in the Manufacturing Division at the Air Force Plant Representative Office, detachment 34, Wichita, KS, I discovered serious inaccuracies in the financial management costs system labor data. I, therefore, requested that Boeing provide us with program logic and explain to us how the cost and manufacturing hours information contained in these functional records increased in a manner inconsistent with what could reasonably be predicted from other sources. I wish to stress, Mr. Chairman, that this accounting cost data, which we found to be inaccurate, is routinely used to price future proposals. So, inaccuracies become an inherent part of the system.

As a result of my request Boeing came to several meetings. Government personnel from the AFPRO and personnel from the Wichita Branch Office of the Defense Contract Audit Agency also were in attendance.

The outcome of these meetings was that Boeing experts claimed that they really did not understand how this program worked; the persons responsible for the programming had retired and no documentation existed. The Government was told that Boeing was in the process of changing over to another program, called Job Cost History, and assured us that this would definitely be better.

On March 13, 1981, Boeing was informed by Mr. L. Eugene Miller, Chief of Contracts, that prior to using JCH or JCS computer runs for price support, a validation or verification of these systems was required. In spite of this warning, Boeing submitted and continued to sbmit this system. Please note that invalidated information was submitted despite requests to the contrary by the Government. Further, even in light of noncompliance with the Government request, Government management personnel accepted and continue to accept invalid information in the form of microfiche slides.

On February 9, 1981, Mr. Robert McKee, Chief of the Manufacturing Operations Division, wrote to Boeing, "We have no confidence in the accuracy of data generated by financial management cost system, and therefore, recommend that use of such data for price support be suspended until further notice."

Mr. Chairman, Boeing completely disregarded this directive and the financial management cost system data continued to be available and Boeing continued to charge the Government for this information.

Currently, Boeing has changed the name financial management cost system to job cost history, but the system remains essentially unchanged. I would like to ask BMAC why they continue to use something which has no validity and why they continue to produce a run which by their own admission they know nothing about. I would like to inquire of Government management personnel why they continue to accept and incur cost for information in which they admittedly have no faith.

In November 1983, I returned to AFPRO Boeing Wichita after an assignment in AFCMD headquarters, New Mexico. In December 1983, a request from the inspector general's office for a review of a diode board was received. In this instance Boeing charged $715.59; on a previous buy they charged $1,253.65 for this diode board. When I reviewed the historical data on this part I discovered discrepancies in closed quantities—what the manufacturing records showed and what the JCH showed. I had repeated discussions with DCAA and pricing personnel in which I emphatically recommended that the run should be validated before we buy or use the data. This point was discussed verbally with DCAA and Air Force Pricing Branch during January and February 1984.

The DCAA representative repeatedly put off action by saying they were too busy. Our own Air Force Pricing Branch personnel argued with me about my estimate of $5 for parts to produce this diode board. Even granting Boeing 100 percent overhead for this part, we do not arrive anywhere near the figure charged by Boeing of $715.59, much less $1,253.65.

In a joint meeting with DCAA, Air Force Pricing, and me, I was requested to revise my report. I refused. I believe that Col. Francis E. Falbo, AFPRO Commander, was apprised of this matter. My immediate supervisor, Mr. Bryant Robinson, was aware of the problem and told me to work it out with the Pricing Branch.

Senator GRASSLEY. OK. Now, when you say they requested you to revise your report, in other words, to somehow show that these higher costs were justified?

Mr. CHAUHAN. Yes, sir.

Senator GRASSLEY. Tell us how they approached you.

Mr. CHAUHAN. Well, we had a meeting, and in the meeting they told me that my estimate of $5 was unreasonable. Boeing has to use this overhead, and all this other stuff, and therefore, would I revise my report. I told them I would not do it. And they told me that they would write a refutation to my report, they would write their own report, denying what I said, and I said, well, that is all right, but my report stays.

That is the way I feel, that is how much this diode board is worth.

Senator GRASSLEY. Did you feel any particular threat or pressure to revise your report?

Mr. CHAUHAN. Well, I felt the pressure, because when you are sitting in a meeting room, and all the people are a little bit hostile toward you, you are under pressure.

Senator GRASSLEY. OK, proceed, please.

Senator SPECTER. Mr. Chairman, I wonder if I might ask a question?

Senator GRASSLEY. Yes, you may, and Senator Heflin, you may, also.

Senator SPECTER. Mr. Chairman, I would appreciate that. I regret that I cannot stay long. I have noted the comment of the witness about the 89-cent item, a pair of diodes. How do you pronounce that?

Mr. CHAUHAN. Diode board.

Senator SPECTER. What are diodes?

Mr. CHAUHAN. Diodes are sort of a gate, they permit flow of electricity in one direction, and block it from going in the other direction.

Senator SPECTER. And you say you bought a pair of diodes for 89 cents, and they were charged $13 and $37?

Mr. CHAUHAN. No; the Air Force has an inventory price for all of the items. Some of the same diodes are on the Air Force inventory, we keep them for spares. The inventory price for the same diodes was at $13 and $37 in the Air Force inventory, whereas I went to the Radio Shack, and bought two of them for 89 cents.

Senator SPECTER. And what did Boeing charge for diodes?

Mr. CHAUHAN. For the board, and the diode, they charged $715.

Senator SPECTER. And on page 7 of your testimony, you talk about a pair of pliers.

Mr. CHAUHAN. Yes, sir.

Senator SPECTER. That Boeing charged $748 for, that you went to the hardware store and bought for how much?

Mr. CHAUHAN. $7.61.

Senator SPECTER. Boeing charged $748?

Mr. CHAUHAN. That is correct.

Senator SPECTER. Mr. Chairman, the question I have of the witness at this time is, what complaints, if any, did you make to people in the chain of command, your superiors and on up in the chain of command?

Mr. CHAUHAN. Mr. Chairman, because I was addressed to write my testimony, and because I was looking for some evidence, this evidence is not hard to find, I just opened up one order, and picked out the pliers and included them in my testimony.

I will try to work this thing out with my superiors, but I have not had the opportunity to submit this to my superiors yet.

Senator SPECTER. You have not made a complaint about this to your superiors?

Mr. CHAUHAN. Not about the pliers.

Senator SPECTER. Why not?

Mr. CHAUHAN. Because I did not have a chance. I was told on Wednesday, or Thursday, to submit my oral statement. So while writing the statement, I opened up one order, and picked out this information, to demonstrate this problem is inherent in the system. My superiors know that this kind of thing happens all the time.

Senator SPECTER. When did you first find that——

Senator GRASSLEY. Senator Specter, pursuing the same line.

I think on several occasions, you tried to make your superiors aware of waste and overcharging, had you not?

Mr. CHAUHAN. Yes, sir.

Senator GRASSLEY. I think your answer to Senator Specter would imply that in all the time you have been involved, you have not made any effort to make these overcharges and high prices known to your superiors.

Mr. CHAUHAN. No, Mr. Chairman, the story about the diode board, I am telling, that is how the system happens. If you let me finish my statement on that, it will be clear to you, that there is no encouragement from my superiors to submit that information to them.

Senator SPECTER. Well, I would be pleased to hear the balance of it.

Mr. CHAUHAN. Yes, sir.

Senator SPECTER. But the question that I have for you is what complaints you made to your superiors. It would seem to me that where you have a $7.61 pair of pliers, where the charge is being made for $748, that you would call it to the attention of your superiors, and that is my question, whether you did.

Mr. CHAUHAN. Well, in a way, Mr. Chairman, I did. I submitted the appropriate form indicating the order is grossly overpriced, and requested a meeting of the pricing board. I am one of the members of the pricing board.

Senator SPECTER. Well, what superior did you make that complaint to?

Mr. CHAUHAN. Over there, Senator Specter, you go through channels. You write your report, and it goes to pricing. It is kind of hard to figure out who to really complain to.

Senator SPECTER. Well, did you make a complaint to anyone?

Mr. CHAUHAN. Yes, it is written.

Senator SPECTER. Whom did you make a complaint to?

Mr. CHAUHAN. I made a complaint to the chairman of the pricing board.

Senator SPECTER. And what is his name?

Mr. CHAUHAN. His name is Mr. Reynolds.

Senator SPECTER. And what did he say?

Mr. CHAUHAN. He said nothing. I requested a meeting.

Senator SPECTER. And did you make a complaint to anybody besides Mr. Reynolds?

Mr. CHAUHAN. No, I did not. I requested a meeting on this.

Senator GRASSLEY. I think the point you are trying to make, is, for the purposes of this testimony, you went out to get some examples, and it was easy to find examples of overpricing. You did not have to look hard to find them?

Mr. CHAUHAN. You do not have to look hard, really. I had to research some papers, so I just pulled out one order, and it was easy to find in that.

I made the complaint to Jim Reynolds, who is the head of Contract and the Chairman of the Pricing Board.

Senator SPECTER. Mr. Chairman, I regret that I cannot stay longer. I came, as I said, in response to your request for a quorum.

I think that it is very serious testimony, that I would hope we would pursue in depth. I do think it an important item, however, as to who Mr. Chauhan complained to. I think it is very important that where there are complaints that they not be lodged first with this committee.

We are pleased to receive them, obviously, but as a matter of procedure they ought to go to your immediate supervisor, and they ought to go up the chain of command, and where complaints are made in that sequence, and they are not attended to, then I would expect this subcommittee to bring in all the people you made the complaints to, and by subpoena, if necessary, all the way up to the Secretary of the Department of Defense, because this kind of conduct is intolerable, if it is true. And we have to check it out to see if it is true, but also an important part is that the complaints be made in the chain of command, to give people an opportunity to correct it, and if the Department of Defense, and the officials there will not correct it, then it is up to the Congress to correct it, which is really what our function is here.

Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you.

Senator HEFLIN. Let me ask you something so that I can understand this.

This diode board, is that it?

Mr. CHAUHAN. Yes, sir.

Senator HEFLIN. What is a diode board?

Mr. Chauhan. It is about one inch by one inch square board made of phenylic, with two diodes, that is, electronic gate devices, mounted on it.

Senator Heflin. Well, what are its uses? In what particular project was it being used? Was it used in an airplane?

Mr. Chauhan. Yes, sir, this is commonly used for spike suppression. If there is a short in the electrical board, what this particular board, or these diodes do, is absorb the spike, and protect the circuit. So it is used on 22 different assemblies.

Senator Heflin. Was the airplane a B-1?

Mr Chauhan. It is the B-52.

Senator Heflin. B-52?

Mr. Chauhan. Yes, sir. It is for emergency use, it is used on several things.

Senator Heflin. In acquiring the diode, did you ensure that any and all specifications required were met?

Mr. Chauhan. Yes, sir, it is a common off-the-shelf item.

Senator Heflin. Were there any peculiarities in this diode?

Mr. Chauhan. No, sir, there is nothing special there. It is off-the-shelf, commonly used diode.

Senator Heflin. Might there have been some nuclear environmental treatment required of this particular diode board, because of the altitude involved?

Were there any specifications, such as recleaning, in regard to nuclear hardening of this board?

Mr. Chauhan. No, Mr. Chairman, I reviewed that, and I did not find any such thing. Even though it will be used in that environment, it has nothing do with what the diodes would cost.

Senator Heflin. No one consulted your specifications, you could buy the diodes anywhere?

Mr. Chauhan. Yes, you could.

Senator Heflin. You could buy them anywhere?

Mr. Chauhan. Yes, sir.

Senator Heflin. All right.

Senator Grassley. Senator Specter is gone now, but I think we still ought to pursue this point so something is not left hanging.

And you, I believe, made very clear that you did try through the chain of command to make known some of the waste. But is it not true, in your case, as I think we heard in testimony we had from George Spanton, and from Ernie Fitzgerald, that as you go up the chain of command, there are many opportunities to cut off these complaints, and to ignore them.

Mr. Chauhan. If I finish my statement on the diode board, I think it will become clear.

Senator Grassley. OK, go ahead.

Mr. Chauhan. That I have tried the chain of command, and what happens in the chain of command when you go to it.

Senator Grassley. All right, go ahead.

Mr. Chauhan. Due to the unresponsiveness of both DCAA and Air Force Pricing, I went to see the commander, Air Force Contracts Management Division. On March 9, 1984, I traveled at my own expense and on my own time, to HQ AFCMD. The commander was very enthusiastic about this, and he could not understand why our own people were not willing to do anything. We also discussed how I felt that some of our people appeared to be protecting the contractors' interests, instead of protecting the taxpayers' interest.

On March 16, 1984, Boeing voluntarily came forward and revealed that inaccuracies existed in the accounting system. We were aware of this and had been attempting to address and correct this problem for nearly 3 years. I was not included in any discussion relative to this problem despite my indicated willingness to participate.

On April 17, 1984, I wrote a memo documenting the length of time these inaccuracies had in actuality existed. Boeing claimed that these inaccuracies had been in existence for only the last 10 months. The truth of the matter, of course, was that these inaccuracies had existed since the inception of the program in March 1981, as well as in the previous program. I also wrote, "since I was involved with Boeing in 1981, I will be able to assist you in determining the accuracies of their responses." I have not heard from DCAA, nor have I been requested to attend any meeting relating to this matter. Boeing has subsequently admitted that these inaccuracies have existed since October 1981. DCAA has issued an interim report stating little of substance.

On March 26, 1984, upon return from briefing you, Mr. Chairman, I was called into Col. Francis E. Falbo's office and in the presence of his vice commander, and my immediate supervisor, he informed me that he had chatted with the AFCMD Commander and he intends to sue me for making statements regarding his activity or lack thereof and the resulting appearance of favoring the contractor. He also told me that I was crazy to think that a diode board could be produced for $5.

In light of Colonel Falbo's statement relative to my sanity, I went to Radio Shack and purchased a pair of diodes for 89 cents. I mailed them to General Stukel to prove my point that the Air Force was paying too much. This is also supported by the Air Force inventory price list, listing these parts at $13 and $37, respectively.

I received a very nice letter from General Stukel telling me to work with my supervisor and commander. I was effectively directed to pursue a dead end. The man entrusted with directing efforts to safeguard the public's interest maintains that I was crazy, and my immediate supervisor has shown no interest in pursuing this matter.

DCAA has written a report claiming that the price charged by Boeing was reasonable. I believe that my report was never made a part of the DCAA report. I subsequently learned that investigators from the inspector general's office had visited AFPRO/Boeing twice, but never talked to me. It is likely that they were never apprised of my report.

I called the branch office of DCAA located in Oklahoma, the location of the activity for this particular part, and was told that they were unable to do anything because the articulated DCAA position was that the price was reasonable.

Mr. Chairman, if that price of $715.59 for a diode board that should cost less than $5 is supportable by the Boeing accounting system, something is wrong, and the system must be changed.

Senator Heflin, this answer, I hope, clarifies the question that I have attempted to pursue the channels and was directed back into the same place. That is, I was sent back to my commander, who does not want to listen.

Senator **Grassley**. Go ahead.

Mr. **Chauhan**. Last week we reviewed another case on simple items which are called "pass-through items." As exhibit shows Boeing has purchased these items from various vendors and sells them with very disturbing markups. In this sampling from one purchase order, we found, on an average, markups by Boeing of 345 percent over their purchase price.

Senator **Grassley**. Explain once again the chart.

Mr. **Chauhan**. Mr. Chairman, these are the parts identified, and these are the part numbers, and this is the price on the chart.

Reference exhibit A, is what the Boeing Co. charges, and this is their purchase price—they bought these parts from this company called CFMI. So what they are doing is they buy from a vendor, do nothing to the product, and sell at this markup price. The average markup is 345 percent.

What we do not know is what the vendor company has marked up from the purchase price on the local market, or the local manufacturers. One of the items which we tried to give an example of, $748 for a pair of pliers, we bought at a hardware store for $7.61. So on these pliers there is a significant markup from CFMI to Boeing, and from the vendor to CFMI.

Senator **Grassley**. What is the percentage markup?

Mr. **Chauhan**. The percentage markup on these pliers is 15,000 percent.

Senator **Grassley**. You know, we have been told by OMB and DOD that these problems are over, that they are a thing of the past. Is this correct?

Mr. **Chauhan**. No, sir, this definitely is not over. This is the problem of the current.

Senator **Grassley**. Well, the changes DOD has cited, are they enough to bring it to an end?

Mr. **Chauhan**. Mr. Chairman, I do not think so, because the system is still the same—these ovecharges and these overprices are a symptom of the system. They are a problem not in themselves, but as indicators of a system problem. Unless we change the system, I do not think the problem is going to change.

Senator **Grassley**. OK.

Mr. **Chauhan**. Now, Mr. Chairman, these——

Senator **Heflin**. Let me ask you this, could the use or nature of the items that you listed—pliers, wrenches, or holders—require any particular specifications?

Mr. **Chauhan**. Senator, these are the pliers which I just bought from the local hardware. These are the same exact pliers manufactured by the same company.

Senator **Grassley**. Manufactured by the same company?

Mr. **Chauhan**. Yes, sir, and by the way, the pliers I bought come with this plastic case. But what Boeing sells do not.

Senator **Heflin**. Well, they might have saved a good deal of money by not having that plastic case.

Mr. **Chauhan**. Mr. Chairman, with your permission, I would like to give those pliers to you, to keep, and think about the price, anywhere between $5 to $748.

Senator **Grassley**. I am not sure that I can stand being reminded of it constantly, but I will be glad to accept them.

Senator **Heflin**. Do you know, for example, what the pliers were going to be used for?

Mr. **Chauhan**. To pull a pin. Just to hold the pin, and you pull it.

Senator **Heflin**. Are they any different from the pliers that you normally find in a toolbox?

Mr. **Chauhan**. Sir?

Senator **Heflin**. Were they any different from common pliers that any mechanic might have in his toolbox?

Mr. **Chauhan**. Yes, Senator, these are the toolbox pliers, anybody can buy them. As a matter of fact, if you buy them at the wholesale, because the people I bought it from have a 33 percent markup, the wholesale price is $5.09. The price incresed to 15,000 percent over the public wholesale cost.

Now, you know if a system can justify the 15,000 percent, inflation over the wholesale cost of pliers like this something is wrong. In the example I give in my exhibit "A", what I was attempting to address was the average markup of 345 percent, where Boeing just bought items from Seller A, and sold them to the Government.

Senator **Grassley**. It seems to me like this is typical. We are told that changes have been made, and obviously they have not been made, and then it is business as usual. We are led to believe that things are different.

Mr. **Chauhan**. Mr. Chairman, there are some changes in the system, but in the DOD procurement community, anything that starts from the top, such as a memo for some changes, or direction from Secretary Weinberger, does not get property channeled down in a timely manner.

What we do, we all go around in this bunch of exercise, running in one place, and we have a good feeling that we are doing something. Secretary Weinberger sees us, and he thinks we are very busy, but the net result is when you finish doing the exercise, and you look down, you are not going anywhere, you are still in the same place. That is the main problem, that we do something, but it does not have any results. It does not affect the overall system. There is no definite direction from somebody that we want to go from point A to B, and to check afterwards that we have done that.

In effect, we get a direction, and we go into this big exercise. We do not sit there in that field, we do work, but the work does not seem to produce any useful results.

Senator **Grassley**. Well, you may be saying somewhat the same thing I said in response to Secretary Weinberger's ennunciation of the 10 principles in which problems like these were going to end. The principles are very good. I have to commend the principles, but unless there are goals set, periodic times when there is going to be a measurement of those goals being accomplished, and a very clear statement of who is responsible for seeing that they are carried out, and who is going to be fired if they are not carried out, then the principles mean little. That is my judgment.

Mr. **Chauhan**. Another thing, Mr. Chairman, the system is such a massive bureaucracy—It has a personality of its own, and the system reacts so slowly, by the time we get direction from Mr.

Weinberger to the field and we do something, then the time lapse is so long, the administration changes. Before Mr. Weinberger—Mr. Carlucci initiatives, now Mr. Weinberger initiatives. But the net result is that the bureaucrats know that these people will just go away, so what they have to do is kind of run on the treadmill, and pretend that they are doing something. Some of us believe that we are doing something.

Senator **GRASSLEY**. What are the incentives? Are the incentives to cut costs down, or to keep costs up?

Mr. **CHAUHAN**. There are no incentives at all to cut costs down. The incentives are to keep costs up. Because if you have a program manager of a bigger weapons system, then you have bigger generals.

Senator **GRASSLEY**. So the incentive system is wrong?

Mr. **CHAUHAN**. Yes, sir.

Senator **HEFLIN**. Let me ask you about these items that you used as examples of overpricing. I have a copy of them here. It lists the plug pulling, the wrench, the pliers and other items. Were they bought on a volume basis or were any of these items bought on a limited basis?

Mr. **CHAUHAN**. Senator, you are correct. They were not bought on volume basis, they were bought on few bases. But my question is, Why not?

Senator **HEFLIN**. If these items had been bought on a volume basis alone, there could have been a savings, is that your position?

Mr. **CHAUHAN**. Definitely, it would have saved us a lot of money. If you could have gone directly to CFMI and bought these items, you could have avoided this 345 percent markup by the Boeing Company.

Senator **GRASSLEY**. Mr. Chauhan, I know you are ready to go back to your testimony. I assume that this may be the first time that you have appeared before a Senate committee, or a House committee, but is there any way that you could touch on just the high points of your testimony?

Mr. **CHAUHAN**. Yes, sir.

Senator **GRASSLEY**. I am just afraid we are not going to have time for it. Is there any way that you can summarize?

We are going to print the entire thing in the record as if it were spoken.

[The following was received for the record:]

STATEMENT OF OMPAL S. CHAUHAN

MR. CHAIRMAN:

I WOULD LIKE TO ADDRESS THIS COMMITTEE ON THE MATTER OF AVAILABILITY AND RELIABILITY OF GOVERNMENT INFORMATION. AT THE CLOSE OF MY REMARKS I WILL ANSWER ANY QUESTIONS YOU MAY HAVE. IT IS MY BELIEF THAT DUE TO THE LACK OF AVAILABILITY AND ACCESSIBILITY OF INFORMATION TO GOVERNMENT PERSONNEL, OVER PRICING AND OVERSPENDING ARE OCCURRING. IT IS MY EXPERIENCE THAT ACCESS TO INFORMATION ON GOVERNMENT CONTRACTS IS ROUTINELY DENIED BY CONTRACTORS WITHOUT PENALTY OR ADVERSE ACTION BY THE GOVERNMENT. AS AN EXAMPLE, I WOULD LIKE TO CITE INACCURACIES IN THE BOEING MILITARY AIRPLANE COMPANY'S (BMAC) COST ACCOUNTING SYSTEM (CAS). I WOULD ALSO LIKE TO DISCUSS IN REGARD TO THIS EXAMPLE WHAT I BELIEVE TO BE GROSS MISMANAGEMENT BY INVOLVED GOVERNMENT PERSONNEL. I WISH TO STRESS I AM NOT SINGLING OUT BOEING FOR CRITICISM. IT IS MY BELIEF SUCH INACCURACIES AS I WILL DISCUSS ARE ENDEMIC TO OUR CURRENT SYSTEM.

IN JANUARY 1981, WHILE WORKING AS A GENERAL ENGINEER IN THE MANUFACTURING DIVISION AT THE AIR FORCE PLANT REPRESENTATIVE OFFICE, (AFPRO), DETACHMENT 34, BMAC, WICHITA, KANSAS, I DISCOVERED THAT THERE WERE SERIOUS INACCURACIES IN THE FINANCIAL MANAGEMENT COSTS (FMC) SYSTEM LABOR DATA AND, THEREFORE, REQUESTED THAT BOEING PROVIDE US WITH PROGRAM LOGIC AND EXPLAIN TO US HOW THE COST AND MANUFACTURING HOURS, INFORMATION CONTAINED IN THESE FUNCTIONAL RECORDS, INCREASED IN A MANNER INCONSISTENT WITH WHAT COULD REASONABLY BE PREDICTED FROM OTHER SOURCES. I WISH TO STRESS, MR. CHAIRMAN, THAT THIS ACCOUNTING COST DATA, WHICH WE FOUND TO BE INACCURATE, IS ROUTINELY USED TO PRICE FURTURE PROPOSALS. SO, INACCURACIES BECOME AN INHERENT PART OF THE SYSTEM.

AS A RESULT OF MY REQUEST BOEING CAME TO SEVERAL MEETINGS. GOVERNMENT PERSONNEL FROM THE AFPRO AND PERSONNEL FROM THE WICHITA BRANCH OFFICE OF THE DEFENSE CONTRACT AUDIT AGENCY (DCAA) ALSO WERE IN ATTENDANCE.

The outcome of these meetings was that Boeing experts claimed that they really did not understand how this program worked; the persons responsible for the programming had retired; and no documentation existed. The government was told that Boeing was in the process of changing over to another program called Job Cost History (JCH) and assured us that this would definitely be better. On 13 March 1981, Boeing was informed by Mr. L. Eugene Miller, Chief of Contracts, that prior to using JCH or JCS computer runs for price support a validation or verification of these systems was required. In spite of this warning, Boeing submitted and continued to submit this system. Please note that unvalidated information was submitted despite requests to the contrary by the government and, even in light of noncompliance with the government request, government management personnel accepted and continue to accept unvalid information in the form of microfiche slides.

On 9 Feb 1981, Mr. Robert McKee, Chief of the Manufacturing Operations Division, wrote to Boeing, "We have no confidence in the accuracy of data generated by Financial Management Cost System and, therefore, recommend that use of such data for price support be suspended until further notice". Mr. Chairman, Boeing completely disregarded that directive and ~~Federal~~ Financial Management Cost System data Boeing continued to be available and Boeing continued to charge the government for this information. Currently, Boeing has changed the name Financial Management Cost System to Job Cost History, but the system remains essentially unchanged. I would like to ask BMAC why they continue to use something which has no validity and why they continue to produce a run which by their own admission they know nothing about. I would like to inquire of government management personnel why they continue to accept and incur cost for information in which they admittedly have no faith?

In November 1983, I returned to AFPRO Boeing Wichita after an assignment in AFCMD Headquarters, New Mexico. In December 1983, a request from the Inspector General's Office for a review of a diode board was received. In this instance Boeing charged $715.59; on a

PREVIOUS BUY THEY CHARGED $1,253.65 FOR THIS DIODE BOARD. WHEN I REVIEWED THE HISTORICAL DATA ON THIS PART I DISCOVERED DISCREPANCIES IN CLOSED QUANTITIES -WHAT THE MANUFACTURING RECORDS SHOWED - AND WHAT THE JCH SHOWED. I HAD REPEATED DISCUSSIONS WITH DCAA AND PRICING PERSONNEL IN WHICH I EMPHATICALLY RECOMMENDED THAT THE RUN SHOULD BE VALIDATED BEFORE WE BUY OR USE THE DATA. THIS POINT WAS DISCUSSED VERBALLY WITH DCAA AND AIR FORCE PRICING BRANCH DURING JANUARY AND FEBRUARY 1984.

THE DCAA REPRESENTATIVE REPEATEDLY PUT OFF ACTION BY SAYING THEY WERE TOO BUSY. OUR OWN AIR FORCE PRICING BRANCH PERSONNEL ARGUED WITH ME ABOUT MY ESTIMATE OF FIVE DOLLARS FOR PARTS TO PRODUCE THIS DIODE BOARD. EVEN GRANTING BOEING 100% OVERHEAD FOR THIS PART WE DO NOT ARRIVE ANYWHERE NEAR THE FIGURE CHARGED BY BOEING OF $715.59 MUCH LESS $1253.65.

IN A JOINT MEETING WITH DCAA, AIR FORCE PRICING, AND ME, I WAS REQUESTED TO REVISE MY REPORT. I REFUSED. I BELIEVE THAT COL. FRANCIS E. FALBO, AFPRO COMMANDER, WAS APPRISED OF THIS MATTER. MY IMMEDIATE SUPERVISOR, MR. BRYANT ROBINSON, WAS AWARE OF THE PROBLEM AND TOLD ME TO WORK IT OUT WITH THE PRICING BRANCH.

DUE TO THE UNRESPONSIVENESS OF BOTH DCAA AND AIR FORCE PRICING, I WENT TO SEE BRIGADIER GENERAL STUKEL, COMMANDER, AIR FORCE CONTRACTS MANAGEMENT DIVISION (AFCMD). ON 9 MARCH 1984, I TRAVELED AT MY OWN EXPENSE AND ON MY OWN TIME - TO HQ AFCMD. GENERAL STUKEL WAS VERY ENTHUSIASTIC ABOUT THIS AND COULD NOT UNDERSTAND WHY OUR OWN PEOPLE WERE NOT WILLING TO DO ANYTHING. WE ALSO DISCUSSED HOW I FELT THAT SOME OF OUR PEOPLEAPPEARED TO BE PROTECTING THE CONTRACTORS' INTERESTS INSTEAD OF PROTECTING THE TAXPAYERS' INTEREST.

ON 16 MARCH 1984, BOEING VOLUNTARILY CAME FORWARD AND REVEALED THAT INACCURACIES EXISTED IN THE ACCOUNTING SYSTEM. WE WERE AWARE OF THIS AND HAD BEEN ATTEMPTING TO ADDRESS AND CORRECT THIS PROBLEM FOR NEARLY THREE YEARS. I WAS NOT INCLUDED IN ANY DISCUSSION relative to this problem despite my indicated willingness to participate.

On 17 April 1984, I wrote a memo documenting the length of time these inaccuracies had in actuality existed. Boeing claimed that these inaccuracies had been in existence for only the last ten (10) months. The truth of the matter, of course, was that these inaccuracies had existed since the inception of the program in March 1981, as well as in the previous program. I also wrote, "Since I was involved with Boeing in 1981, I will be able to assist you in determining the accuracies of their (BMAC's) responses". I have not heard from DCAA nor have I been requested to attend any meeting relating to this matter. Boeing has subsequently admitted that these inaccuracies have existed since October, 1981. DCAA has issued an interim report stating little of substance.

On 26 March 1984, upon return from briefing you, Mr. Chairman, I was called into Col. Falbo's office and in the presence of his Vice-Commander, Major Terry Talbot, and my immediate supervisor, Mr. Bryant Robinson, Col. Falbo informed me that he and General Stukel had chatted and this he intended to sue me for making statements regarding his activity or lack thereof and the resulting appearance of favoring the contractor. He also told me that I was crazy to think that a diode board could be produced for five dollars.

In light of Col Falbo's statement relative to my sanity, I went to Radio Shack and purchased a pair of diodes for eighty-nine (89) cents. I mailed them to General Stukel to prove my point, that the Air Force was paying too much. This is also supported by the AF Inventory Price List, listing these parts at thirteen (13) and thirty-seven (37) dollars.

I received a very nice letter from General Stukel telling me to work with my Supervisor and Commander. I was effectively directed to pursue a dead end. The man entrusted with directing efforts to safeguard the public's interest maintains that I was

CRAZY AND MY IMMEDIATE SUPERVISOR HAS SHOWN NO INTEREST IN PURSUING THIS MATTER.

DCAA HAS WRITTEN A REPORT CLAIMING THAT THE PRICE CHARGED BY BOEING WAS REASONABLE. I BELIEVE THAT MY REPORT WAS NEVER MADE A PART OF THE DCAA REPORT. I SUBSEQUENTLY LEARNED THAT INVESTIGATORS FROM THE INSPECTOR GENERAL'S OFFICE HAD VISITED AFPRO/BOEING TWICE, BUT NEVER TALKED TO ME. IT IS LIKELY THAT THEY WERE NEVER APPRISED OF MY REPORT.

I CALLED THE BRANCH OFFICE OF DCAA LOCATED IN OKLAHOMA - THE LOCATION OF THE BUYING ACTIVITY FOR THIS PARTICULAR PART - AND WAS TOLD THAT THEY WERE UNABLE TO DO ANYTHING BECAUSE THE ARTICULATED DCAA POSITION WAS THAT THE PRICE WAS REASONABLE.

MR. CHAIRMAN, IF THAT PRICE OF $715.59 FOR A DIODE BOARD THAT SHOULD COST LESS THAT $5.00 IS SUPPORTABLE BY THE BOEING ACCOUNTING SYSTEM, SOMETHING IS WRONG. THE SYSTEM MUST BE CHANGED.

LAST WEEK WE REVIEWED ANOTHER CASE ON SIMPLE ITEMS WHICH ARE CALLED "PASS-THROUGH ITEMS". BOEING HAS PURCHASED THESE ITEMS FROM VARIOUS VENDORS AND SELLS THEM WITH VERY DISTURBING MARKUPS. IN THIS SAMPLING FROM ONE PURCHASE ORDER, WE FOUND, ON AN AVERAGE, MARKUPS BY BOEING OF 345% OVER THEIR PURCHASE PRICE (EXHIBIT A). HOWEVER, THESE MARKUPS ARE [redacted] SUPPORTED BY THE SAME ACCOUNTING SYSTEM WHICH SUPPORTS THE PRICE OF THE DIODE BOARD AT $715.59 AND HAS BEEN APPROVED BY DCAA REPORTS. IN ONE INSTANCE, MR. CHAIRMAN, BOEING CHARGED UP $748.00 FOR A PAIR OF PLIERS. I WENT TO THE LOCAL HARDWARE STORE AND BOUGHT THE SAME PLIERS FOR $7.61 (EXHIBIT B PLIERS). IN THIS INSTANCE, BOEING PAID $80 FOR THE PLIERS WHICH INDICATES A MARKUP FOR THE AIR FORCE OF 935% OVER THEIR PURCHASE PRICE. IN FACT, THE RETAILER FROM WHOM I BOUGHT THE PLIERS SAID HE PAID $5.09 WHOLESALE PRICE WHICH MEANS THE COST TO THE AIR FORCE WAS A 15,000% INFLATION OF PUBLIC WHOLESALE COST.

IN A STAFF MEETING ON 7 JUN 84 WITH COL. FRANCIS E. FALBO IN RESPONSE TO A QUESTION FOR INPUT I MADE THE FOLLOWING REMARKS:

1. Boeing should be asked to reimburse the AF one hundred million dollars for the cost accounting inaccuracies or we should pursue this subject more aggressively.

2. I have no confidence in DCAA since they seem to specialize in "finding no evidence" of anything.

3. The effort made to evaluate Progress Payments was inadecuate. How could such an effort could be meaningful when Boeing does not know the work content of the program.

4. Our review of the Boeing work measurement system though incomplete was not looking good thus far.

After the meeting, I was called into Mr. Robinson's office and told that I was to say nothing at future meetings; that my comments were spoiling his relations with other Divisions; I was never to attend any future meetings. Mr. Chairman, I truly could not understand his reaction. I told my supervisor of Mr. Weinberger's 10 point initiative and proposed disciplinary action toward employees who do not do their jobs, who are "soft" toward the contractor. Mr. Robinson said that he was "not worried about Mr. Weinberger, he works for Col. Falbo." Incidentally, Mr. Chairman, when I reviewed the minutes of this meeting, I saw that my comments were not included in the minutes. My concern is that this example is not an isolated incident, but is representative of a "toe-the-line, don't-make-waves" management pattern.

Another example, Cost Performance Reports From Boeing.

During the past month or so I have been attempting to secure Cost Performance Reports in the areas of work measurement. I have requested access to the computer data with Boeing employees assisting me. I have requested a list of computer reports so that I could properly prepare questions. I also requested pricing support data in support of the B-1B Avionics proposal. All my requests have "respectfully been denied".

In regard to B-1B proposal data. Boeing submitted that they will repropose the B-1B work using Seattle actuals. (Even though the work will be performed in Wichita.) I believe Boeing pulled the information I requested and it did not support their proposed price. This pattern of "reproposing" during negotiations and fact-finding is a common practice among contractors.

The most important aspect of this, is that Boeing and other contractors know that they can do all this and know that the government will buy their product no matter what. There has never been a program cancelled because the contractor failed to provide requested information.

Why does Boeing not have to provide information to the government?

A significant number of government contracts are unpriced orders on spares. These are situations in which contractors have already obtained contracts. The major portion of a given contract has already been completed, and ~~60%-70%~~ a significant number of deliveries on it have already been accepted. Under these conditions, how much leverage can a negotiator have? The negotiator has little or no leverage and he must cope with pressure to definitize the contract.

Another vehicle used is open orders. Contractors really like these. The can charge virtually whatever they want. The limiting factor in this instance is how much the government has to spend. The amount available for the Department of Defense to spend is normally the only limiting factor.

CUSTOM AND LAW

Mr. Chairman, as you well understand, there is remarkable difference between the laws and customs. Customs are adapted from long traditions and practices and often supersede the law in daily practice. We have a lax attitude towards the contractors, it is custom to get along with the contractor, often at our expense. Our purpose is not to ruffle feathers and not to make waves. Sometimes

THERE IS LAW TO PROTECT THE INTEREST OF THE GOVERNMENT, BUT THERE IS CUSTOM TO LOOK GOOD AND BE NICE TO THE CONTRACTOR. WHEN THERE IS CONFLICT BETWEEN THE LAW AND CUSTOM, CUSTOM PREVAILS. IF YOU BREAK CUSTOM, SOCIAL SANCTIONS FOLLOW.

MR. CHAIRMAN, WE ARE FACED HERE WITH THESE CULTURAL BARRIERS AND IT WOULD TAKE SOME TIME TO GET THE SYSTEM TURNED AROUND, BUT IF WE PERSIST WE WILL PREVAIL. HOWEVER, WE NEED TO MAKE SOME HARD AND FIRM DECISIONS ON THE SIDE OF LAW.

EXAMPLE OF DOUBLE MESSAGE:

I WANT TO SHARE WITH YOU AN EXAMPLE OF DOUBLE MESSAGES, A COMMON OCCURENCE. IN A TRIP REPORT PREPARED BY ONE OF OUR OFFICERS WHO HAD HAD A MEETING WITH MAJOR GENERAL THURMAN, B-1B PROGRAM DIRECTOR, IN A SIDE SESSION WITH AFPRO REPRESENTATIVES, HE QUOTED THE FOLLOWING MESSAGE. GENERAL THURMAN SAID, "BOEING SEATTLE WAS ONLY AFPRO WITHHOLDING PROGRESS PAYMENTS ON A REGULAR RECURRING BASIS." HE SAID, "IT SEEMS THAT EVERYTIME BOEING HICCUPS, THE AFPRO HITS THEM WITH A PENALTY. SINCE WE ARE NO LONGER JUST WORKING TO A PULL-AHEAD SCHEDULE, WE SHOULDN'T BE SO TOUGH ON THEM." IN THE FUTURE, GENERAL THURMAN DOES NOT WANT THE AFPROs TO WITHHOLD PROGRESS PAYMENTS WITHOUT FIRST GIVING HIM A CALL AND EXPLAINING WHY WE THINK IT IS NECESSARY. ACTUALLY, GENERAL THURMAN IS TELLING THE AFPRO DO NOT WITHHOLD PROGRESS PAYMENTS SINCE, IN FACT, CUSTOM AND PROCEDURE DO NOT ALLOW FOR DIRECT ACCESS BY PERSONNEL TO A MAJOR GENERAL. MR. CHAIRMAN, AFPRO BOEING-SEATTLE REALLY DESERVES TO BE COMPLIMENTED FOR THIER VIGILANCE AND INTEGRITY.

IN ANOTHER PARAGRAPH OF THIS REPORT, GENERAL THURMAN IS STATED TO HAVE SAID, "THE GAO HAS BEEN WANTING TO SEE THE WEEKLY PROGRAM REPORTS FROM THE AFPROs. AS OF NOW, THEY ARE NOT GETTING THEM AND THE SYSTEM PROGRAM OFFICE

(SPO) wants to keep it that way. If a serious problem should arise on the program in the future, we shouldn't put it in our weekly reports but pick up the phone and call the SPO instead. This will get more immediate attention where needed." General ~~Thruman~~ Thurman also asked us to provide our respective contractors a copy of our reports. He said to tell them that it is just an information copy.

Mr. Chairman, we get these conflicting instructions in the field. Mr. Weinberger's memo says get tough. General Thurman says, "We are too tough." So, normally we follow the instructions of the local commanders more readily.

Here are examples of Fixed Price Contract:

The Maverick Program of which you may have heard has had several hundred contract and pricing changes.

The B-1B program has had over ~~120~~ 104 contract and pricing changes processed. Yet, these are so-called firm, fixed price contracts.

(Exhibits 6, 7, 8 and 9)

If you look at these charts you might conclude that Firm Fixed Price contract is a misnomer. It is perhaps more correctly price fixed between the buying activity and the companyon a specific date, subject to changes on other dates depending on how much money can be obtained from Congress.

Through numerous changes a contractor can inflate and augment the price of a contract, no matter how grossly underbid the original contract was. It is doubtful that there has ever been a true cost overrun. The standard government procedure is to bail out any contractor who gets into trouble. How can cost overruns exist when thousands of changes are forthcoming? In light of all

THE CHANGES SUBMITTED TO AND ACCEPTED BY THE GOVERNMENT, IT MUST BE STATED FOR THE RECORD, MR. CHAIRMAN, THAT, FOR ALL PRACTICAL PURPOSES IN MOST GOVERNMENT CONTRACTING, THERE IS NO SUCH THING AS A FIRM FIXED PRICE CONTRACT, ONLY A "WHAT THE CONGRESS WILL ALLOW" CONTRACT. THUS, PROSPECTIVE CONTRACTORS CAN CHEERFULLY UNDERBID KNOWING THAY THEY CAN RENEGOTIATE AND COST-PLUS THEIR WAY TO A HEALTHY PROFIT.

ANOTHER TECHNIQUE USED IS OVER-AND-ABOVE WORK. AT BMAC ON THE F-4 PROGRAMMED DEPOT MAINTENANCE (PDM) PROGRAM THERE IS 55% ~~THREE TIMES~~ MORE WORK DONE ON OVER-AND-ABOVE ~~THAN ON~~ THE BASIC CONTRACT. THERE ARE MORE THAN TWO THOUSAND (2,000) INSPECTION MAINTENANCE AND REPAIR RECORDS (IMRRS) PROCESSED EVERY MONTH. EACH IMRR CARRIES HOURS ASSOCIATED WITH WORK AND IS SUBJECT TO NEGOTIATION. HOW MUCH LEVERAGE CAN YOU HAVE WHEN YOUR AIRPLANE IS OPEN, THE FLYAWAY DEADLINE IS APPROACHING, AND YOU MUST HAGGLE OVER HOW MANY HOURS IT SHOULD TAKE TO DO THE JOB? A BETTER WAY TO HANDLE THIS WOULD HAVE BEEN TO NEGOTIATE A PRICE ASSOCIATED WITH OVERHAUL OF EACH AIRCRAFT AND TO HAVE NEGOTIATED A FIRM FIXED PRICE. HOWEVER, THIS NOW OVER-AND-ABOVE WORK IS A HANDY LOOP-HOLE OF THE SO-CALLED FIRM FIXED CONTRACT.

CONTRACTORS GET WHAT THEY WANT. NEGOTIATION, PRICING AND FACT-FINDING ARE LARGELY FORMALITIES FOR THE SAKE OF APPEARANCE. WHEN IT COMES RIGHT DOWN TO IT, NEGOTIATED PRICES ARE WHAT THE CONTRACTOR WILL ACCEPT IF THE GOVERNMENT WANTS TO BUY THE PRODUCT. THEY ARE NOT DICTATED BY SHOULD-COST ANALYSES, BUT BY THE AMOUNT OF MONEY THE GOVERNMENT HAS TO SPEND. RARELY IS THE GOVERNMENT ABLE TO COME UP WITH A SHOULD COST FIGURE AND MAKE IT STICK IN NEGOTIATIONS.

CONTRACTORS ALWAYS KNOW BETTER THAN GOVERNMENT PERSONNEL WHAT MONEY IS AVAILABLE. PROGRAM MANAGERS ARE MORE INTERESTED IN KEEPING THE PROGRAM GOING THAN HOW MUCH IT COSTS OR HOW EFFICIENT IT IS. IF A SYSTEM DOES NOT WORK THE CONTRACTOR USES THE CHANGE MECHANISM TO KEEP ADDING TO THE PROGRAM UNTIL SOMETHING THAT WORKS IS DEVELOPED. IT IS NOT UNCOMMON TO DROP PERFORMANCE REQUIREMENTS

WITHOUT ANY COMPENSATION TO THE GOVERNMENT AS IN CASE OF THE IIR MAVERICK.

KEEPING THE PROGRAM GOING ALSO BECOMES THE GOAL OF THE GOVERNMENT'S PROGRAM MANAGERS. THEY WILL CHANGE SCHEDULE IF THE CONTRACT DOES NOT MEET THE SCHEDULE REQUIREMENT; CHANGE PERFORMANCE REQUIREMENTS IF THEY ARE NOT MET; AND IN THE CASE OF THE IIR MAVERICK DROPPED REQUIREMENTS FOR 490 MISSILES TO 200 MISSILES AT VIRTUALLY NO CHANGE IN THE CONTRACT PRICE. THE ONLY CONTROLLING FACTOR IS THE COMPETITION AMONG EXISTING AND PROPOSED GOVERNMENT PROGRAMS FOR THE DEFENSE PROCUREMENT DOLLARS. THE MAJOR MOTIVATION OF A "GOOD" PROGRAM MANAGER IS TO KEEP THE PROGRAM GOING REGARDLESS OF THE COST.

REASONS FOR GROSS OVERSPENDING.

NOW, MR. CHAIRMAN, I WILL TALK ABOUT THE REASONS FOR THIS GROSS OVER-SPENDING AND SELF-PERPETUATING, INEFFICIENT SYSTEM, WHICH WE ALL KNOW IS OUT OF HAND. BECAUSE OF THE GROSS INEFFICIENCIES IN OUR PROCUREMENT SYSTEM. ~~WE ARE FACING A HUGE DEFICIT, OUR INTEREST RATES ARE AT A LEVEL WHERE IT HAS BECOME DIFFICULT FOR AN AVERAGE AMERICAN TO FULFILL DREAMS OF OWNING A HOME.~~ WE ARE TYING UP OUR VALUABLE NATIONAL RESOURCES, ENGINEERS, SCIENTIST AND TECHNICIANS, IN MEANINGLESS PERPETUAL CHANGES IN OUR WEAPON SYSTEM WITHOUT ANY BENEFITS. MOST OF OUR SYSTEMS HAVE BEEN CHANGED AND RECHANGED IN THE NAME OF LATEST TECHNOLOGY TO THE POINT THAT YOU ALMOST NEED A PHD TO KEEP UP WITH THESE CHANGES AND MAINTAIN THESE SYSTEMS. IF A SYSTEM IS NOT READY FOR PRODUCTION, WE SHOULD NOT GO INTO PRODUCTION AND SIGN CONTRACTS HOPING WE CAN MAKE IT WORK.

I WILL BRIEFLY DISCUSS SOME OF THE FUNDAMENTAL PROBLEMS WHICH ARE THE ROOT CAUSES OF THIS PROBLEM.

> MOST OF OUR PROGRAM MANAGERS HAVE NEITHER THE EXPERIENCE NOR THE TRAINING TO BE PROGRAM MANAGERS.

THEY ARE USUALLY WELL-INTENTIONED well educated OFFICERS, WHO HAVE BEEN THROWN IN THE ARENA OF PROCUREMENT BECAUSE THEY HAVE BEEN GOOD OFFICERS AND HAVE EXCELLENT MILITARY SERVICE RECORDS. SENDING THESE OFFICERS TO FACE THE RESPONSIBILITY OF MANAGING THE MULTI-BILLION PROGRAM IS UNFAIR.

IN OUR PROCUREMENT FIELD, NORMAL TOUR OF DUTY FOR AN OFFICER IS 3-4 YEARS AN WE HAVE NO CONTINUITY OF EXPERIENCE. OUR CORPORATE KNOWLEDGE OF THESE PROGRAMS IS LOST.

NO MATTER HOW WELL OR BADLY YOU DO, YOU DON'T HAVE ANY RESPONSIBILITY WHEN YOU ASK SOMEONE ABOUT WHAT WAS DONE ON THE PROGRAM, THE ANSWER IS, "IT DID NOT HAPPEN ON MY WATCH". IT IS NOT UNCOMMON FOR PROGRAM MANAGERS TO WORK FOR THE SAME CONTRACTORS AFTER RETIREMENT. IN ONE INSTANCE AT HUGHES AIRCRAFT, THE AIR FORCE PLANT REPRESENTATIVE OFFICE (AFPRO) COMMANDER AND THREE MAVERICK PROGRAM MANAGERS ARE CURRENTLY WORKING FOR THE CONTRACTOR. THESE SAME PEOPLE WERE RESPONSIBLE FOR OVERSEEING AND MANAGING THE MAVERICK PROGRAM FOR THE GOVERNMENT IMMEDIATELY PRIOR TO THEIR EMPLOYMENT BY HUGHES.

IN THE TECHNICAL AREAS, IT IS NOT UNCOMMON FOR OFFICERS WITH NONTECHNICAL BACKGROUND EXPERIENCE OR EDUCATION TO SUPERVISE TECHNICAL PEOPLE. MR. CHAIRMAN, THESE PEOPLE CAN PROVIDE PRACTICALLY NO SUPERVISION AND TEND TO WORK HARD AT LOOKING GOODTO COMPENSATE FOR THEIR LACK OF TECHNICAL KNOWLEDGE. CIVILIAN EMPLOYEES HAVE TO WORK WITH THESE OFFICERS WHO ARE reassigned ~~REASSINGED~~ EVERY TWO TO THREE YEARS.

THIS PRACTICE HAS DETERIORATED OUR TECHNICAL RESOURCES, OUR ENGINEERS AND SCIENTISTS HAVE FIGURED OUT IT'S MORE IMPORTANT TO PLEASE A BOSS, WHO DOES NOT KNOW ANYTHING ABOUT THEIR WORK, THAN TO PERFORM AT A HIGH LEVEL OF COMPETENCY.

ONLY THOSE WHO WORK TO PLEASE THESE BOSSES AND PLAY THE GAME OF "LOOKING GOOD" GET A CHANCE TO GET AHEAD AND BECOME THEIR

ASSISTANTS TO SHIELD THEM FROM ANY EMBARRASSING SITUATIONS. ONE OF THE ENGINEERS THE OTHER DAY REMARKED, "IF YOU DO WHAT YOU ARE SUPPOSED TO DO AND DON'T DO THE THINGS THAT MAKE YOU LOOK GOOD, YOU NEVER GET AHEAD".

MOST OF THE TIME WE GO ON A BUYING SPREE WITHOUT EVEN KNOWING WHAT WE WANT TO BUY. CONTRACTORS UNDERSTAND OUR PROBLEM AND HELP US DECIDE BY SELLING US WHAT THEY WANT TO SELL AND THAT IS A BIG CAUSE OF NUMEROUS CHANGES AFTER THE PROGRAM CONTRACT HAS BEEN SIGNED. THEY KNOW WE WILL COUGH UP THE EXTRA MONEY.

SINCE CIVILIANS, NO MATTER HOW COMPETENT THEY ARE, HAVE NO CHANCE OF GETTING THE KEY POSITIONS, THERE IS A SERIOUS MORALE PROBLEM AMONG CIVILIAN EMPLOYEES. THEY FEEL THEY DO THE WORK AND THEIR MILITARY BOSSES GET THE CREDIT.

MR. CHAIRMAN, WE ARE SERIOUSLY LACKING IN TRUE LEADERSHIP. WE HAVE BOSSES TO REPORT TO, BUT VERY FEW TRUE LEADERS. OUR PEOPLES' SENTIMENT CAN BE SUMMARIZED IN WORDS OF ONE OF MY COLLEAGUES. I CALLED HIM AND ASKED HOW THINGS WERE. HE SAID, "NOT TOO WELL". SECOND QUESTION I ASKED HIM WAS, "WHERE ARE YOUR BOSSES"? HE SAID, "I DON'T KNOW". WELL, JOKINGLY, I SAID, "I THINK YOU ARE MISSING YOUR LEADERS". "He replied; "HOW CAN YOU MISS SOMETHING YOU NEVER HAD"?. MR. CHAIRMAN, THIS STATEMENT SUMMARIZES A SERIOUS INTERNAL PROBLEM FACING US.

[illegible]

THERE IS SO MUCH EMPHASIS IN OUR SYSTEM ON LOOKING GOOD THAT WE GO THROUGH LOTS OF MEANINGLESS, UNPRODUCTIVE EXERCISES. COVERUP AND PLAYING IGNORANT AND MAKING UP DETAILS THAT ARE NOT AVAILABLE ARE PART OF LOOKING GOOD. OUR PHILOSOPHY OF LOOKING GOOD CAN BE SUMMARIZED BY A STATEMENT MY WIFE MADE. SHE SAID, "OM, IF YOU GUYS SPEND AS MUCH TIME AND ENERGY IN DOING WHAT YOU ARE SUPPOSED TO DO AS YOU SPEND IN TRYING TO LOOK GOOD, YOU WILL LOOK GREAT".

TECHNICALLY, CIVILIAN AND MILITARY SHOULD HAVE TO QUALIFY FOR THE POSITIONS THE SAME WAY, I.E. HAVING THE SAME QUALIFICATIONS. BUT TRULY IT DOES NOT HAPPEN THIS WAY. IF YOU ARE MILITARY, YOU PRETTY MUCH QUALIFY FOR EVERYTHING. I DO NOT BELIEVE IT IS FAIR TO OUR MILITARY OFFICERS OR OUR CIVILIANS, OR TO OUR COUNTRY. OUR LAWS MUST EQUALLY APPLY TO EACH. UNDER OUR CURRENT RULES, IT IS NOT UNCOMMON TO PLACE MILITARY OFFICERS AS HEAD OF CONTRACTING AND MANUFACTURING OR PROCURING OFFICES WITHOUT ANY EXPERIENCE IN EITHER OF THESE FIELDS. ON THE OTHER HAND, PEOPLE WITH EXTENSIVE, PROVEN EXPERIENCE AND EXPERTISE CANNOT COMPETE FAIRLY FOR THESE POSITIONS BECAUSE THEY ARE CIVILIANS. IT IS VERY CONFUSING AND DEMORALIZING FOR SUBORDINATES TO WORK UNDER SUCH CONDITIONS. IT MAKES GOOD BUSINESS SENSE TO ONLY PLACE PEOPLE IN CHARGE OF MANAGING BUSINESS, WHO HAVE PROVEN ABILITY AND NEEDED BACKGROUND EXPERIENCE AND ARE EDUCATIONALLY QUALIFIED. BUT SINCE THERE IS NO REAL RESPONSIBILITY ASSOCIATED WITH BEING A WEAPON SYSTEM MANAGER ANYONE CAN BE A PROGRAM MANAGER AND DO WELL IF HE KNOWS HOW TO PLAY THE GAME OF "LOOKING GOOD".

MR. CHAIRMAN, THIS IS OUR WEAKEST AREA, WE DEFINITELY DON'T NORMALLY KNOW WHAT WE WANTOR WHAT IT'S WORTH. WE DO HAVE SOME IDEAS ABOUT WHAT WE NEED TO DO, BUT ACTUALLY IT IS THE CONTRACTORS WHO DO THE THINKING FOR US AND LEAD US INTO BELIEVING THAT WE WANT EXACTLY WHAT THEY HAVE. WE NEED TO CHANGE THIS TREND AND CHANGE IT NOW. WE SHOULD SPEND LOTS OF TIME FIGURING OUT WHAT WE NEED, WHAT ELSE WILL MEET OUR NEEDS, AND WHAT IS MOST ECONOMICAL. FUNCTIONAL NEEDS AND PROCUREMENT ECONOMICS MUST BECOME PART OF OUR ROUTINE. WE SHOULD ALSO TURN AWAY FROM PROGRAMS THAT ARE NOT ECONOMICAL AND CANCEL PROGRAMS THAT BECOME TOO EXPENSIVE.

SIMPLE POINTS FOR REDUCTION OF DEFENSE SPENDING IN HALF

MR. CHAIRMAN, I AM SUGGESTING THAT IF WE FOLLOW THE FOLLOWING RECOMMENDED COURSE OF ACTION, WE CAN IMMEDIATELY REDUCE DEFENSE

PROCUREMENT SPENDING IN HALF, BUY ALL THE WEAPONS SYSTEMS WE NEED AND STRENGTHEN OUR INDUSTRIAL BASE. I WILL BRIEFLY SUMMARISE THOSE POINTS FOR YOUR CONSIDERATION:

- APPOINT ONLY QUALIFIED PEOPLE PROGRAM [illegible] MANAGERS (MILITARY OR CIVILIAN).
- HAVE COMPETENT PROGRAM MANAGERS AND STAFF REMAIN THROUGHOUT THE LIFE OF THE PROGRAM TO PROVIDE CONSISTENCY.

- DEFINE REQUIREMENT OF THE PROGRAM VERY CLEARLY (THIS IS OUR BIGGEST WEAKNESS.)

- PASS LEGISLATION TO DISALLOW ANY MONEY FOR CONTRACT CHANGES AFTER A BASIC CONTRACT HAS BEEN SIGNED WITHOUT THE PERSONAL APPROVAL OF A SERVICE SECRETARY..

- PASS LEGISLATION TO SEPARATE FINANCIAL AND MANAGEMENT FUNCTIONS. PROGRAM MANAGERS SHOULD NOT CONTROL FUNDING FOR THE PROGRAM. FUNDING SHOULD BE CONTROLLED BY AN INDEPENDENT BODY REPORTING DIRECTLY TO THE SECRETARY OF THE AIR FORCE AS PROGRAM MANAGERS OFTEN ARE VESTED IN CONTINUING THE PROGRAM REGARDLESS OF COST.

- ALL PROGRAM RESERVE FUNDS COULD BE ACCUMULATED IN ONE FUND AND MONEY BE ONLY RELEASED AT THE RECOMMENDATION OF THE INDEPENDENT FINANCIAL BOARD.

- TERMINATE PROGRAMS THAT BECOME TOO COSTLY.

- FOLLOW MY CONCEPTS OF PROGRAM MANAGEMENT AS ILLUSTRATED IN THE ATTACHED CHARTS. PREDICT AND TAKE CORRECTIVE ACTION BEFORE ADVERSE TRENDS OCCUR. (EXHIBIT 1, 2, 3, 4, AND 5)

- DISMISS AND REPLACE PROGRAM MANAGERS WHO FAIL TO CONTROL COST.

- DISQUALIFY CONTRACTORS WHOSE STANDARD HOURS OUTPUT COST BECOMES TOO EXPENSIVE.

- FOLLOW SECRETARY'S WEINBERGER'S 10 POINT PLAN IN ITS TRUE SPIRIT.

- PASS LEGISLATION, WHICH DISQUALIFIES CONTRACTORS, WHO ADD MORE THAN 33% OF PURCHASE PRICES ON PASS THROUGH ITEMS.

- PASS LEGISLATION TO ASSURE THAT ONLY TECHNICALLY QUALIFIED PEOPLE BECOME PROGRAM MANAGERS AND KEY PROGRAM ADMINISTRATORS.

- DEVELOP INCENTIVE PROGRAM FOR CONTRACTORS WHOSE COST PER HOUR OF LABOR OUTPUT IS SIGNIFICANTLY BETTER.

- CUT DOWN ON UNNECESSARY REVIEWS BY PLACING RESPONSIBILITY FOR ANALYSIS ON CONTRACT ADMINISTRATION OFFICES.

- AS AN INTERIM MEASURE, SECRETARY ORR COULD DIRECT ALL PROGRAM MANAGERS TO PLACE A MORATORIUM ON ALL CONTRACT CHANGES NEEDING ADDITIONAL FUNDS.

- PLACE PERFORMANCE WARRANTIES IN THE CONTRACT. THIS IS STANDARD PROCEDURE IN COMMERCIAL VENTURES.

- PASS LEGISLATION WHICH DISQUALIFY CONTRACTORS WHO REFUSE GOVERNMENT PERSONNEL ACCESS TO FINANCIAL AND PERFORMANCE DATA.

SUMMARY REMARKS:

- MR. CHAIRMAN, AS EVIDENCED BY THE EXAMPLES I CITED, ACCESS TO THE COST AND PERFORMANCE DATA BY THE GOVERNMENT PERSONNEL IS ROUTINELY DENIED AND THE RELIABILITY OF DATA WE DO RECEIVE IS QUESTIONABLE.

- There are underlying reasons for this gross overpricing problem. The example I cited about the $748.00 plier is only a symptom of a system that needs changing.

- We do have simple solutions to the big problem. All we need is to be willing to make a change and make some hard decisions.

- I believe if we follow my recommendations there is potential savings of billions of dollars for our taxpayers.

Acknowledges:

Mr. Chairman, I wish to acknowledge special thanks to all the people at AFCMD and especially my staff who assisted me in preparing this testimony. Also, special thanks to those dedicated employees who provided invaluable information, but did not want to reveal their names due to fear of retaliation. I also think it is important that you know this report I am now giving you was made available to Boeing on 19 June 1984 in the name of using the Boeing system for transmission of the report to AFCMD HQ, although AFPRO-Boeing has a ~~spearate~~ separate Air Force owned and operated transmission system available to it.

Mr. Chairman, I will now answer any questions you may have.

AIR LAUNCHED CRUISE MISSILES (ALCM)

- Boeing Aerospace Company, WA
- Phase: Production
- MIL-STD-1567 (USAF) on contract
- MIL-STD-1567A not on contract
- Labor Standards:*

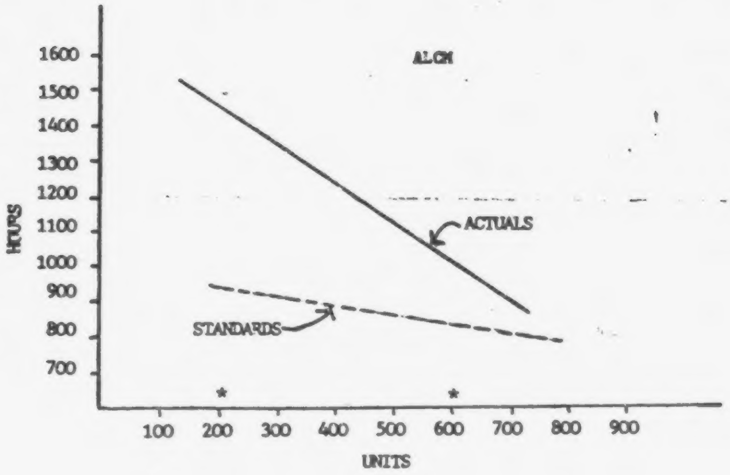
  Type I - 98%
  Type II - 2%

- 876 air vehicles delivered as of February 10, 1984.
- Direct manufacturing labor covered by Type I or II standards: 100%.

NOTE: Boeing does not track total standard hours by air vehicle in their accounting system. Two discrete values developed for units 225 and 600 were used to develop the attached standards curve.

*Type I Engineered Labor Standards: Established using recognized techniques such as time studies, predetermined time systems, or combinations, to derive at least 90% of the normal time that a person should take to perform a labor effort (with ±10% accuracy).

*Type II Labor Standards: All those standards not meeting Type I criteria.



	FY83				FY84
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter
Total Actual Hrs.	171,666	151,048	128,366	116,290	110,190
Total Std. Hrs.	110,400*	107,891	98,743	97,800*	100,172
Percentage Total Direct Mfg. Labor Covered by Type I Standards	98%	98%	98%	98%	98%
Percentage Total Direct Mfg. Labor Covered by Type II Standards	2%	2%	2%	2%	2%

* Calculated at these points, extrapolated between.

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or proprietary nature and not releasable under 18 U.S.C 190

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CRUISE MISSILE PROGRAM/WILLIAMS INTERNATIONAL INC.

	FY 83				FY 84
TOTAL ACTUAL HOURS	24,764	24,727	24,352	23,772	24,104
TOTAL STANDARD HOURS	20,398	20,523	20,261	19,752	20,025
PERCENTAGE TOTAL DIRECT MFG LABOR COVERED BY TYPE I STAND	82.3%	83%	83.3%	83%	83%

ATTACHMENT B

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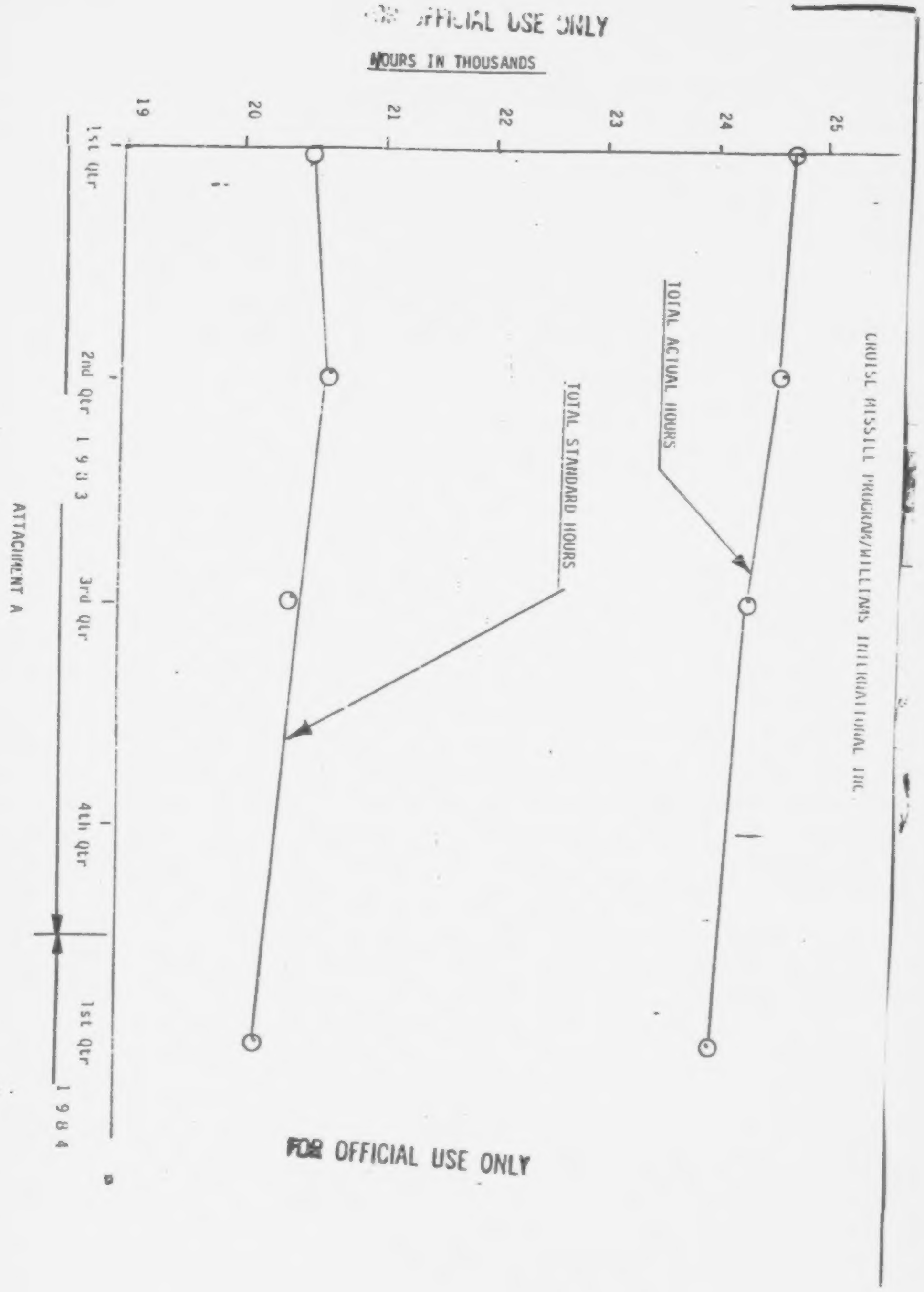


ATTACHMENT A

FOR OFFICIAL USE ONLY

a. AIM-7M Missile (Joint Program, Navy Lead Service)

b. General Dynamics, Camden, AR

c. Production Phase

d. MIL-STD-1567 not on contract

e. MIL-STD-1567A not on contract

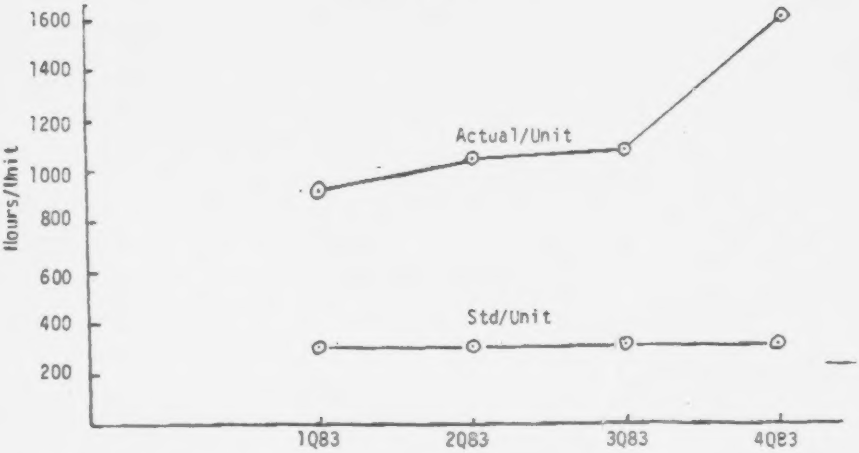
f. MIL-STD-1567A not planned.

g. Type I 45% coverage, Type II 55%

h. Deliveries have started

i. Type I 45% coverage, Type II 55%

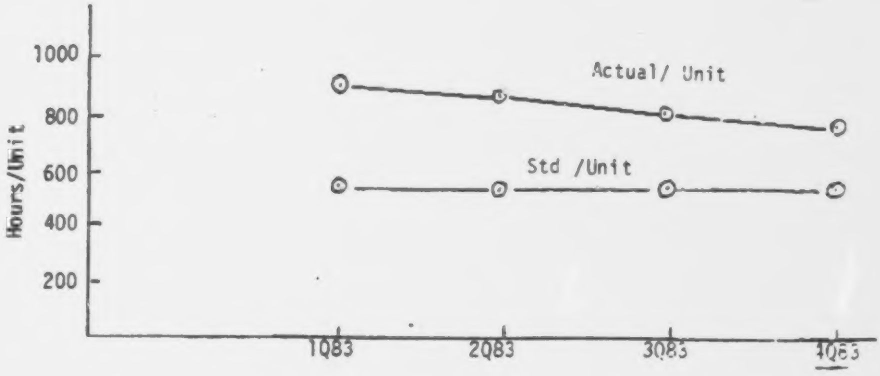
j. Equiv Units: 1Q-74; 2Q-117; 3Q-136; 4Q-130



	1Q83	2Q83	3Q83	4Q83
Total Actual Hrs	67,361	122,911	147,665	210,388
Total Std Hrs	23,708	37,852	43,774	42,039
% Type I Stds	45%	45%	45%	45%
Realization	2.84	3.25	3.35	5.00

FOR OFFICIAL USE ONLY

a. AIM-7M Missile (Joint Program, Navy Lead Service)
b. Raytheon, Lowell, MA
c. Production Phase
d. MIL-STD-1567 not on contract
e. MIL-STD-1567A not on contract
f. MIL-STD-1567A not planned
g. Type I 31% coverage. Type II 69%
h. Deliveries have started
i. Type I 31% coverage. Type II 69%
j. Equiv Units: 1Q-140; 2Q-228; 3Q-352; 4Q-530



Total Actual Hours	127,232	202,578	288,358	408,842
Total Std Hrs	77,756	126,631	195,500	294,362
% Type I Stds	31%	31%	31%	31%
Realization	1.60	1.60	1.47	1.39

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ATCH 2

a. AIM-9M Missile (Joint Program, Navy Lead Service)

b. Raytheon, Lowell MA

c. Production Phase

d. MIL-STD-1567 not on contract

e. MIL-STD-1567A not on contract

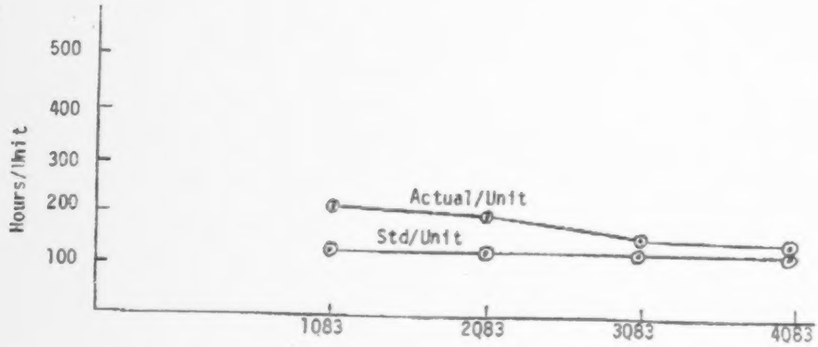
f. MIL-STD-1567A not planned

g. Type I 31% coverage. Type II 69%

h. Deliveries have started

i. Type I 31% coverage. Type II 69% for each quarter.

j. Equiv Units: 1Q - 287; 2Q - 668; 3Q - 879; 4Q - 883



Total Actual Hours	62,079	136,272	137,272	134,216
Total Std Hrs	36,822	85,704	112,776	113,288
% Type I / II	31%/69%	31%/69%	31%/69%	31%/69%
Realization	1.69	1.59	1.22	1.19

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DEPARTMENT OF THE AIR FORCE
HEADQUARTERS BALLISTIC MISSILE OFFICE (AFSC)
NORTON AIR FORCE BASE, CALIFORNIA 92409

29 FEB 1984

REPLY TO ATTN OF: CC

SUBJECT: Congressional Request for Information on MIL-STD 1567

TO: HQ AFSC/CV

1. The requested information on work measurement indicators associated with the Peacekeeper Program is forwarded. We have gathered the data from several sources. Since it was needed in a short period of time, we have not analyzed its validity.

2. We would like to point out that the MIL-STD 1567, work measurement requirement, was placed early in the Peacekeeper Missile Program when the FSED contracts were written on all associate contractors. Briefly we required 85% coverage of all categories of manufacturing touch labor hours using Type I engineered standards having an accuracy of ± 10% with a 90% or greater confidence at the operation level.

3. Reporting of results...actual versus standard hours and variance analysis...is not required contractually until the production phase. Therefore, the information requested in Attachment 3 of the 16 Feb 84 letter has not been collected and collated by contractors in a manner that is consistent enough for analysis and reporting. Thus, it is not available at this time. The information requested in Attachment 2 is provided for each contractor.

ALOYSIUS G. CASEY
Major General, USAF
Commander

14 Atch
1. Morton Thiokol
2. Aerojet Strategic Prop Co
3. Hercules Inc
4. Rocketdyne Div Rockwell Intl
5. Autonetics Div Rockwell Intl
6. Northrop Electronics Div
7. Northrop Precision Products
8. Honeywell Inc
9. Boeing Aerospace Co
10. Martin Marietta Aerospace
11. GTE
12. Westinghouse Electric Co
13. AVCO Systems Div
14. General Electric Co

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DEPARTMENT OF THE AIR FORCE
HEADQUARTERS BALLISTIC MISSILE OFFICE (AFSC)
NORTON AIR FORCE BASE, CALIFORNIA 92409

REPLY TO ATTN OF: PMD

27 Mar 84

SUBJECT: Congressional Request for Information on MIL-STD-1567
(Your Msg 232045Z FEB 84)

TO: HQ AFSC/PMD

1. We have reassessed our Peacekeeper contractors' status of work measurement systems concerning "actual/standard" labor hours, as you requested.

2. As we stated in our letter of 23 Feb 84, the reporting of results ..... actual versus standard hours and variance analysis .... is not required contractually until the production phase. Therefore, the data compiled from the Full Scale Development (FSD) program phase lacks consistency and may be less meaningful.

Richard E. De Sanze
RICHARD E. DE SANZE, P.E.
Actg Manufacturing Division Chief

14 Atch
1. Morton Thiokol
2. Aerojet Strategic Prop Co
3. Hercules Inc
4. Rocketdyne Div Rockwell Intl
5. Autonetics Div Rockwell Intl
6. Northrop Electronics Div
7. Northrop Precision Products
8. Honeywell Inc
9. Boeing Aerospace Co
10. Martin Marietta Aerospace
11. GTE
12. Westinghouse Electric Co
13. AVCO Systems Div
14. General Electric Co

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BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a.	Program Name	Peacekeeper Missile (MK 21 Fuze)
b.	Contract and Location	General Electric Philadelphia, Pennsylvania
c.	Program Phase	Full Scale Development
d.	Mil-Std 1567 (USAF) on contract	Yes
e.	Mil-Std 1567A (USAF) or 1567A applied, when?	Yes
f.	If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g.	Are labor standards Type I or Type II. Percentage of each.	Type I - 85% on Production Phase Type II - 100% on FSD Phase
h.	Any production deliveries? If not when?	No. Scheduled start, April 1986
i.	Percentange of direct manufacturing labor covered by Type I or Type II?	85%
j.	Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84

Peacekeeper/General Electric Co

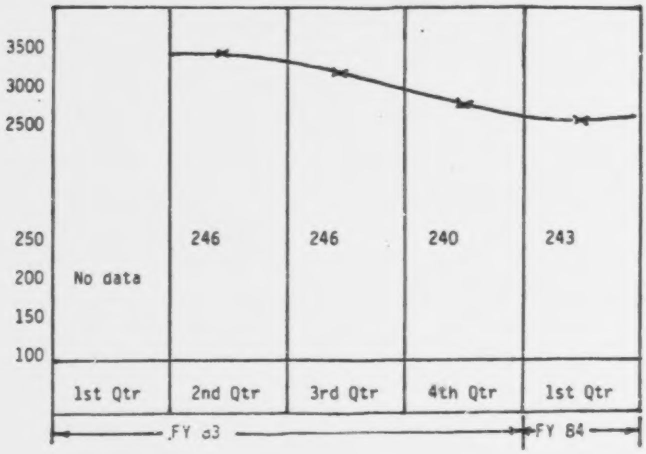

CHART 1

Peacekeeper/General Electric Co

	FY 83				FY 84
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
Total Actual Hours	—	5050	4203	6717	9122
Total Standard Hours	—	370	320	578	852
Percentage	—	100	100	100	100
Equivalent Units		1.5	1.3	2.4	3.5

CHART 2

ATCH 14

BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a. Program Name	Peacekeeper Missile
b. Contractor and Location	Morton Thiokol Wasatch Division Brigham City, UT "Stage I"
c. Program Phase	Full Scale Engineering Developmental (FSED)
d. Mil-Std 1567 (USAF) on contract	Yes. FSED and FSED-2
e. Mil-Std 1567A on contract	Yes. Production
f. If neither 1567 (USAF) or 1567A applies, when?	Not applicable
g. Are labor standards Type I or Type II. Percentage of each.	Type I. 85%. Type II. 14%.
h. Any production deliveries? If not when?	May 1986
i. Percentage of direct manufacturing labor covered by Type I or Type II?	100%
j. Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

PEACEKEEPER STAGE I
MORTON THIOKOL

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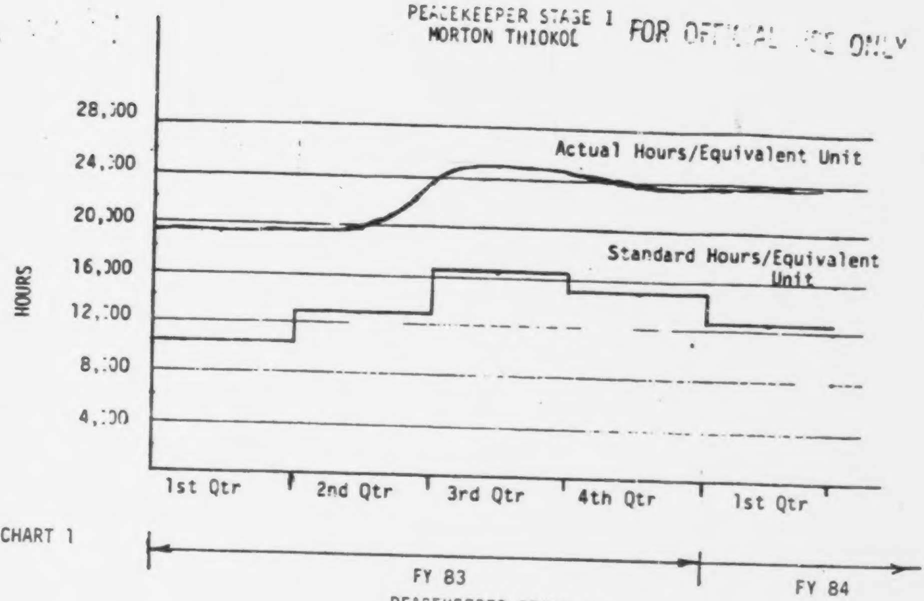


CHART 1

PEACEKEEPER STAGE I
MORTON THIOKOL

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
Total Actual Hours	68,316	55,516	5[illegible],370	60,051	47,951
Total Standard Hours	36,847	35,641	33,929	37,776	25,592
Percentage, Total direct mfg labor covered by standard	100	100	100	100	100
Equivalent Units	3.607	2.802	2.105	2.538	2.024

CHART 2

FOR OFFICIAL USE ONLY

ATCH 1

BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a.	Program Name	Peacekeeper Missile
b.	Contractor and Location	Aerojet Strategic Propulsion Co. Sacramento, CA "Stage II"
c.	Program Phase	Full Scale Engineering Developmental (FSED)
d.	Mil-Std 1567 (USAF) on contract	Yes. FSED and FSED-2
e.	Mil-Std 1567A on contract	Yes. Production
f.	If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g.	Are labor standards Type I or Type II. Percentage of each.	Type I. 85%. Type II. 15%.
h.	Any production deliveries? If not when?	May 1986
i.	Percentage of direct manufacturing labor covered by Type I or Type II?	85%
j.	Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

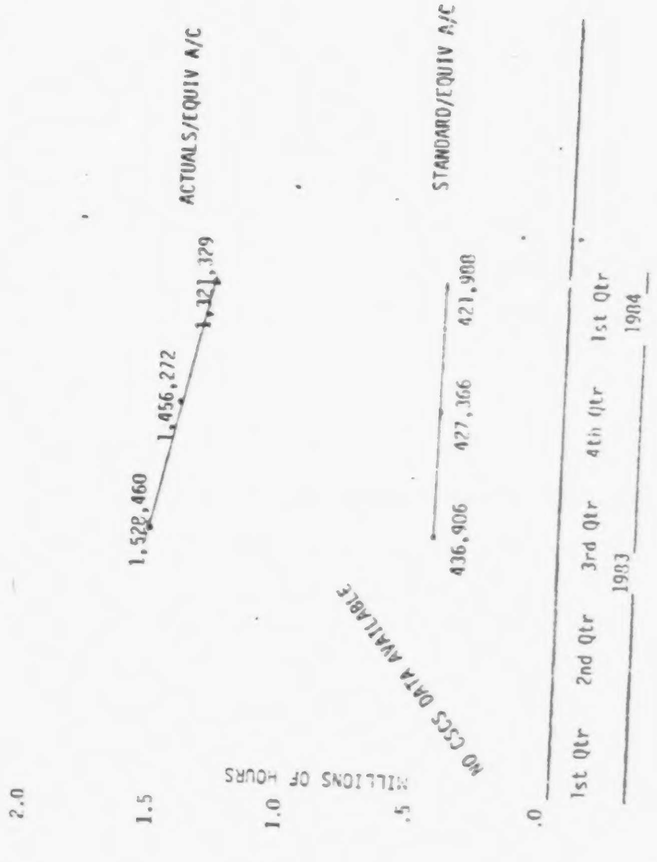
PEACKEEPER STAGE II/AEROJET STRATEGIC PROPULSION CO

	FY 83				CY 84
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
TOTAL ACTUAL HOURS	18,611	20,455	23,193	** 33,137	** 31,120
TOTAL STANDARD HOURS	*	*	*	*	*
PERCENTAGE TOTAL DIRECT MFG LABOR COVERED BY STANDARD				85 %	85 %
EQUIVALENT UNITS	*	*	*	*	*

CHART 2

* There is no reporting system in place at this time for Actual Hours per Equivalent Unit. The present method of reporting is for Actual Hours per work center only.

** During the fourth quarter of FY 83 and the first quarter of FY 84 work had begun on manufacturing Stage II components which accounted for approximately a third of the total effort and which have not had standards developed to cover. The other two thirds of the total effort have standards developed but there is no reporting system in place as yet.


MILLIONS OF HOURS
2.0
1.5
1.0
.5
.0
ACTUALS/EQUIV A/C
1,528,460
1,456,272
1,321,329
STANDARD/EQUIV A/C
436,906
427,366
421,908
NO CSCS DATA AVAILABLE
1st Qtr
2nd Qtr
3rd Qtr
4th Qtr
1983
1st Qtr
1984

BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a.	Program Name	Peacekeeper Missile
b.	Contractor and Location	Hercules Incorporated Aerospace Division/BACCHUS Works Magna, UT "Stage III"
c.	Program Phase	Full Scale Engineering Development (FSED)
d.	Mil-Std 1567 (USAF) on contract	Yes. FSED
e.	Mil-Std 1567A on contract	Yes. FSED-2 and Production.
f.	If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g.	Are labor standards Type I or Type II. Percentage of each.	Type I. 60%. Type II. 40%.
h.	Any production deliveries? If not when?	May 1986
i.	Percentage of direct manufacturing labor covered by Type I or Type II?	90%
j.	Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

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PEACEKEEPER STAGE III/HERCULES

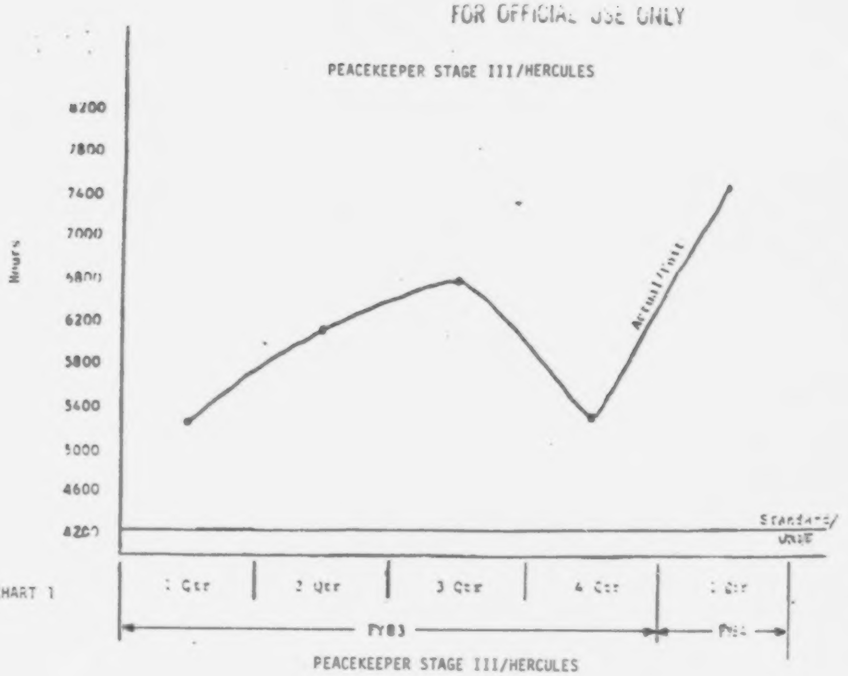

CHART 1

PEACEKEEPER STAGE III/HERCULES

	FY 83				FY 84
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Total Actual Hrs.	10068	13266	13108	13[illegible]62	[illegible]
Total Standard Hrs.	8059	9074	8137	10550	[illegible]
% Labor Covered by Standards	100	100	100	100	100
Avg. EU	1.9	2.1	1.9	2.6	1.4

CHART 2

ATCH 3

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TOTAL NAAO

ATTACHMENT 3
CHART 2

	FY 83				FY 84
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
Total Actual Hours	Not Available A	700,038	915,548	1,048,516	1,224,872
Total Standard Hours	Not Available D	197,862	261,707	307,704	391,183
Percentage, Total Direct Mfg. Labor covered by Standards	Not Available	97%	97%	97%	97%

A = TOTAL ACTUAL HOURS (EXCLUDING WORK IN PROCESS) CHARGED TO COMPLETED WORK

D = PURE STANDARDS EARNED FOR COMPLETED WORK

NOTE: 97% OF DIRECT MANUFACTURING LABOR COVERED BY STANDARDS IS APPLICABLE TO THE TOTAL OF ALL WORK COMPLETED DURING THE PERIOD 2ND QTR 1983 THROUGH 1ST QTR 1984. COVERAGE BY SPECIFIC QUARTER IS NOT AVAILABLE.

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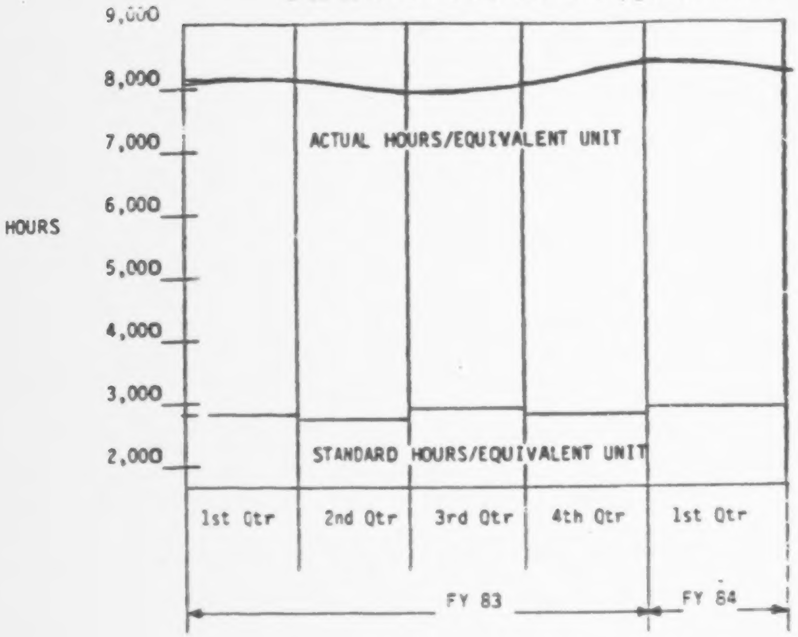
BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Recuired

a. Program Name	Peacekeeper Missile
b. Contractor and Location	Rockwell Intl Rocketdyne Division Canoga Park, CA "Stage IV"
c. Program Phase	Full Scale Engineering Development (FSED)
d. Mil-Std 1567 (USAF) on contract	Yes. FSED and FSED-2
e. Mil-Std 1567A on contract	Yes. Production
f. If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g. Are labor standards Type I or Type II. Percentage of each.	Type I. 87%. Type II. 13%.
h. Any production deliveries? If not when?	May 1986
i. Percentage of direct manufacturing labor covered by Type I or Type II?	100%
j. Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

PEACEKEEPER STAGE IV/ROCKETDYNE FOR OFFICIAL USE ONLY



ART 1

PEACEKEEPER STAGE IV/ROCKETDYNE

	FY 83				FY 84
	1ST QTR	2ND QTR	3RD QTR	4TH QTR	1ST QTR
Total Actual Hours	25,517	13,582	12,158	11,289	10,738
Total Standard Hours	8,891	4,732	4,236	3,933	3,741
Percentage, Total direct mfg labor covered by standard	35	35	35	35	35
Equivalent Units	3.1	1.7	1.5	1.4	1.3

FOR OFFICIAL USE ONLY

RT 2

ATCH 4

FOR OFFICIAL USE ONLY

BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a.	Program Name	Peacekeeper Missile
b.	Contractor and Location	Rockwell International Autonetics Division Anaheim, California "Guidance & Control Computer"
c.	Program Phase	Full Scale Engineering Development (FSED). Production go-ahead April 1984
d.	Mil-Std 1567 (USAF) on contract	Yes. FSED
e.	Mil-Std 1567A on contract	Yes. Production
f.	If neither 1567 (USAF) or 1567A applied, when?	Not applicable.
g.	Are labor standards Type I or Type II. Percentage of each	Type 1. 100%
h.	Any production deliveries? If not when?	No. August 1985
i.	Percentage of direct manufacturing labor covered by Type I or Type II?	85%
j.	Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

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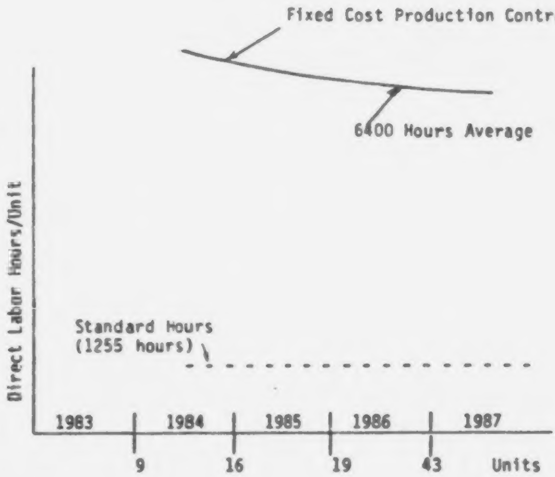
Peacekeeper Rockwell International Autonetics Division

- FSED I work is almost completed, started fabrication of FSED II units.
- Missile Electronics and Computer Assembly (MECA) is being redesigned to expand functions.
- In Jan 1984, for the Fixed Cost Production Contract, Autonetics proposed to produce each MGCS unit for 6,900 direct labor hours. This was reduced to approximately 6,400 hours during factfinding.
- The total touch labor standard hours are calculated to be 1255 hours.
- Therefore, Autonetics is expected to produce 33 1st production units for the performance/realization factor of approximately 5.
- Under the FSED II program, unit production labor hours are higher end of the Fixed Cost Production Contract budget curve presented below.



CHARTS 1 AND 2 COMBINED

ATCH 5

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BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

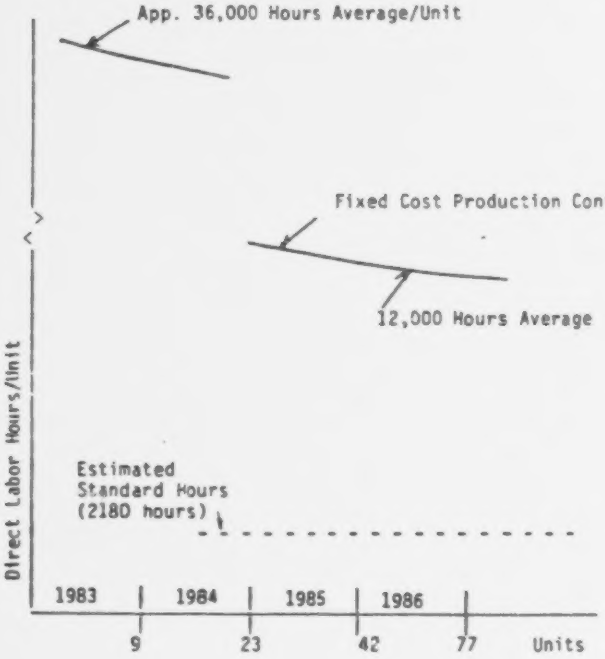
Attachment 2

2. Specific Information Required

a.	Program Name	Peacekeeper Missile
b.	Contractor and Location	Northrop Electronics Division Hawthorne, California "Inertial Measurement Unit (IMU)"
c.	Program Phase	Full Scale Engineering Development (FSED). Production go-ahead March 1984
d.	Mil-Std 1567 (USAF) on contract	Yes. FSED
e.	Mil-Std 1567A on contract	Yes. Production
f.	If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g.	Are labor standards Type I or Type II. Percentage of each.	Type 1. 100%
h.	Any production deliveries? If not when.	No. June 1985
i.	Percentage of direct manufacturing labor covered by Type I or Type II?	85%
j.	Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our ransmittal letter dated 22 Feb 84.

Peacekeeper/Northrop Electronics Division

- In Dec 1983, for the Fixed Cost Production Contract, NED proposed to produce each IMU for 12,000 direct labor hours.
- Since IMU is being redesigned, less that 50% of Standard Hours have been developed. Nevertheless, the total touch labor hours for each IMU are estimated to be 2,180 hours.
- Therefore, NED proposed to produce 52 first production units for the performance/realization factor of 5.5. This is still about 3 times better than 1983 performance. This data translates to the following curves.



CHARTS 1 AND 2 COMBINED

BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a.	Program Name	Peacekeeper Missile
b.	Contractor and Location	Northrop Precision Products Division (PPD) Norwood, MA "Third Generation Gyro (TGG)"
c.	Program Phase	Full Scale Engineering Development (FSED) Production go-ahead February 1984
d.	Mil-Std-1567 (USAF) on Contract	Yes. FSED
e.	Mil-Std 1567A on contract	Yes. Production
f.	If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g.	Are labor standards Type I or Type II. Percentage of each	Type I. 100%
h.	Any production deliveries? If not when?	No. April 1985
i.	Percentage of direct manufacturing labor covered by Type I or Type II?	85%
j.	Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

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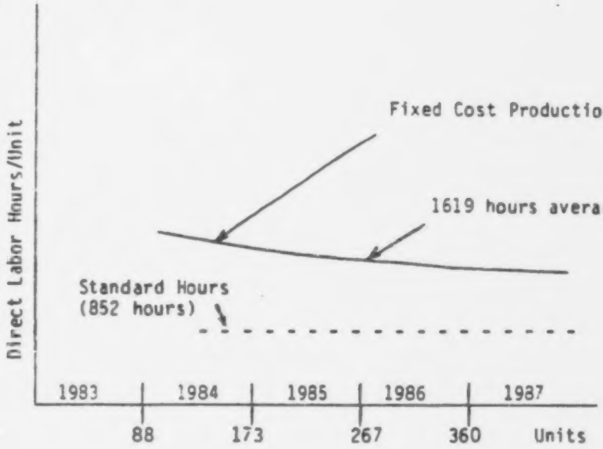
Peacekeeper/Northrop Precision Products

- FSED I is completed. FSED II units are being produced.
- In Nov 1983, for the Fixed Cost Production Contract, PPD proposed to produce each TGG unit for 1619 direct labor hours.
- The total touch labor Standard hours for each TGG are calculated to be 852 hours.
- Therefore, PPD proposed to produce 187 1st production units for performance/realization factor of 1.9. This is a very good performance factor.
- Under the FSED II program, unit production direct labor hours are higher end of the Fixed Cost Production Contract budget curve presented below.



CHARTS 1 AND 2 COMBINED

ATCH 7

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BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

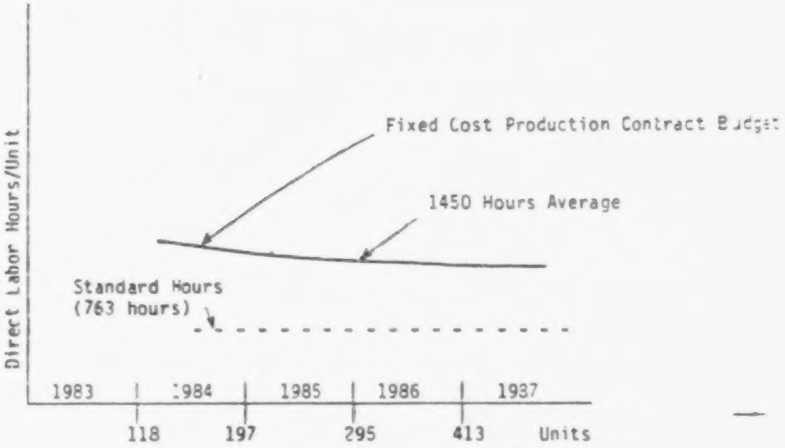
2. Specific Information Required

a.	Program Name	Peacekeeper Missile
b.	Contractor and Location	Honeywell Inc. Clearwater, Florida "Specific Force Integrating Receiver (SFIR)"
c.	Program Phase	Full Scale Engineering Development (FSED). Production go-ahead February 1984
d.	Mil-Std 1567 (USAF) on contract	Yes. FSED
e.	Mil-Std 1567A on contract	Yes. Production
f.	If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g.	Are labor standards Type I or Type II. Percentage of each.	Type I. 100%
h.	Any production deliveries? If not when?	No. April 11, 1985
i.	Percentage of direct manufacturing labor covered by Type I or Type II?	85%
j.	Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

FOR OFFICIAL USE ONLY

Peacekeeper/Honeywell Inc

- FSED I is completed. FSED II units are being produced.
- In Nov 1983, for the Fixed Cost Production Contract, HIF proposed to produce each SFIR unit for 1450 direct labor hours.
- The total touch labor standard hours for each SFIR unit are calculated to be 763 hours.
- Therefore, HIF proposed to produce 217 production units for the performance/realization factor of 1.9. This is an excellent performance factor.
- Under the FSED II Program, unit production labor hours are higher end of the Fixed Cost Production Contract budget curve presented below.



CHARTS 1 AND 2 COMBINED

FOR OFFICIAL USE ONLY

ATCH 8

BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a. Program Name	Peacekeeper Missile
b. Contractor and Location	Boeing Aerospace Co. Seattle, WA
c. Program Phase	Operational Support Equipment (OSE) Full Scale Development (FSD)
d. Mil-Std 1567 (USAF) on contract	No, on previous FSD contract.
e. Mil-Std 1567A on contract	Yes, letter contract 1 Oct 83.
f. If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g. Are labor standards Type I or Type II. Percentage of each.	Type I first Qtr FY84 91.04% Vandenberg unique.
h. Any production deliveries? If not when?	No, start Nov 1985.
i. Percentage of direct manufacturing labor covered by Type I or Type II?	Type I production coded hours 97%.
j. Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

PEACKEEPER/BOEING AEROSPACE CO

	FY83				FY84
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
TOTAL ESTIMATED ACTUAL HOURS	NA	37,746	24,231	26,129	55,322*
TOTAL STANDARD HOURS	NA		0		212**
PERCENTAGE TOTAL DIRECT MFG LABOR COVERED BY STANDARD	NA		0		91.04%**

HART 2

* 55,110 hours of this total are developmental hours and do not conform to standards.

** The percentage (91.04%) covered by standards, applies to the total standard hours (212) and equates to 193 hours of Type I standard hours.

Notes:

1. Chart I information requested is premature for the Peacekeeper FSD contracts for Basing. Although actual hours have been applied to the work being done on the contract, no equivalent units or standard hours have been developed. The zero total standard hours in the 2nd through 4th quarter are due to FSD contract.

2. The present letter contract, dated 83 Oct 1 continues until 84 Dec 31 for R&D operational support equipment. (FSD)

3. Shop labor during CY 1984 has been in support of R&D test and Engineering Model development. (Not covered by standards).

4. The developmental labor expenditures have supported test fixture, test hardware, and test conduct activity of a "one-of-a-kind" nature.

5. The "production coded labor" effort that began in the 4th quarter of 1983 is in support of hardware fabrication for subsystem evaluation tests and early integrated system tests at VAFB (FSED program to Preliminary Design Review (PDR drawings).

6. All of the standard coverage in the 1st quarter 1984 were Type I. As the "production coded effort" (item 3 above) increases in 1984 approximately 97% of the coverage will be by Type I standards.

BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 15 FEB 84

Attachment 2

2. Specific Information Required

a.	Program Name	Peacekeeper Missile
b.	Contractor and Location	Martin Aerospace Denver, CO
c.	Program Phase	T&H IFSS Emplacer Full Scale Development
d.	Mil-Std 1567 (USAF) on contract	Through June 1984, 85% coverage
e.	Mil-Std 1567A on contract	Start June 1984 contract
f.	If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g.	Are labor standards Type I or Type II. Percentage of each.	Type I 75.3% Type II 24.7%
h.	Any production deliveries? If not when?	Feb 1987
i.	Percentage of direct manufacturing labor covered by Type I or Type II?	85% Type I
j.	Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

PEACEKEEPER/MARTIN MARIETTA AEROSPACE

	FY83				FY84
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
TOTAL ESTIMATED ACTUAL HOURS	61,171	67,554	59,080	56,803	39,206
TOTAL STANDARD HOURS	21,607	21,828	22,372	19,442	12,598
PERCENTAGE TOTAL DIRECT MFG LABOR COVERED BY STANDARD	*	*	*	*	*

CHART 2

Notes:

1. Chart I information requested is premature for the Peacekeeper FSD contracts for Basing. Although actual hours have been applied to the work being done on the contract, no equivalent units or standard hours have been developed.

2. MMDA does not maintain its standard data base information in the format you have requested. MMDA technique used to validate the percentage to Type I and Type II standards is to periodically take a snapshot of all work in the fabrication cycle and compute the percentage of Type I vs. Type II standards.

3. All basic engineering releases processed through manufacturing for fabrication have manufacturing process plans prepared for each detail, subassembly and assembly. Part of the normal flow of process plans is to have standards applied to each step of the plan. In the case of Peacekeeper all configuration items process plans have Type I standards applied to each step.

4. MMDA is under contract to provide Transportation and Handling Equipment (T&H) and Instrumentation Flight System Safety (IFSS) equipment. This equipment varies in quantities delivered and to be delivered from one to twenty units. It also varies in configuration from end item to end item. Each end item has its own schedule that it is worked and delivered to.

5. MMDA's present FSD contract expires 84 Jun 13. The new FSD contract period of performance is from June 84 to June 87 for which MIL STD 1567A will apply.

6. Insufficient engineered labor man-hours prohibit a production count system.

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BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a. Program Name	Peacekeeper Missile
b. Contractor and Location	GTE, Westborough & Needham, MA
c. Program Phase	Launch Control System (LCS) Full Scale Development (FSD)
d. Mil-Std 1567 (USAF) on contract	On previous contract
e. Mil-Std 1567A on contract	1 Oct 83 letter contract, not negotiated
f. If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g. Are labor standards Type I or Type II. Percentage of each.	52% Type I
h. Any production deliveries? If not when?	Dec 1985
i. Percentage of direct manufacturing labor covered by Type I or Type II?	85% Type I
j. Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

PEACKEEPER/GTE

	FY83				FY84
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
TOTAL ESTIMATED ACTUAL HOURS (PDL)	* 101,931	144,055	153,524	146,584	151,449
TOTAL STANDARD HOURS	86,833	79,526	81,258	69,263	76,982
PERCENTAGE TOTAL DIRECT MFG LABOR COVERED BY STANDARD	54%	55%	53%	47%	51%

HART 2

Chart I information requested is premature for the Peacekeeper FSD contracts for Basing. Although actual hours have been applied to the work being done on the FSD contract. No equivalent units or standard hours have been developed. No production count system exists separately for Peacekeeper. The present letter contract period of performance is from 83 Oct 17 to 87 Sept 30. Insufficient engineered labor man-hours prohibit a production count system.

FOR OFFICIAL USE ONLY

BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a. Program Name	Peacekeeper Missile
b. Contractor and Location	Westinghouse Electric Corp. Sunnyvale, CA
c. Program Phase	Canister Full Scale Development
d. Mil-Std 1567 (USAF) on contract	No
e. Mil-Std 1567A on contract	Yes, FSD
f. If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g. Are labor standards Type I or Type II. Percentage of each.	Type II 100%
h. Any production deliveries? If not when?	March 1986
i. Percentage of direct manufacturing labor covered by Type I or Type II?	85% Type I
j. Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84.

PEACEKEEPER/WESTINGHOUSE ELECTRIC CO

Westinghouse became an ASCON for intermediate FSD in July 1982 for the Canister performance through Sept 1984. The present FSD proposal is for April 1984 through June 1987. Westinghouse did not select a Work Measurement System until March 1984. Hardware and software portions of the Unimation System will not be in place until May 1984. The development and application of standards will not start until the second week of April 1984 with a goal of 85% by May 1985. Production award is anticipated for June 1985.

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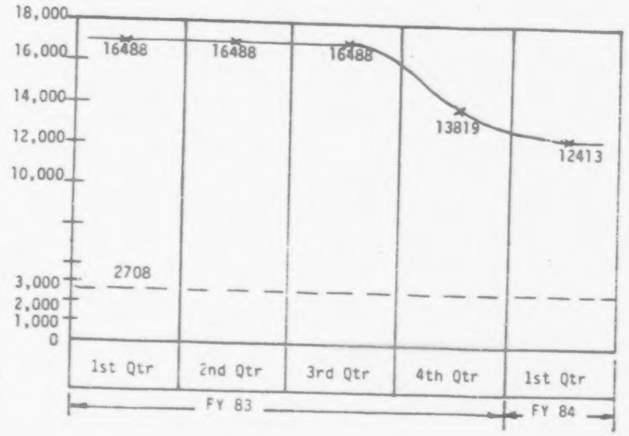
BMO REPLY TO CONGRESSIONAL REQUEST ON MIL-STD-1567 LETTER DATED 16 FEB 84

Attachment 2

2. Specific Information Required

a. Program Name	Peacekeeper Missile (RS-Reentry System) (RV-Reentry Vechicle
b. Contract and Location	AVCO Systems Division Wilmington, Massachusetts
c. Program Phase	Full Scale Development
d. Mil-Std 1567 (USAF) on contract	Yes
e. Mil-Std 1567A (USAF) or 1567A applied, when?	Yes, on RS - No, on RV in future
f. If neither 1567 (USAF) or 1567A applied, when?	Not applicable
g. Are labor standards Type I or Type II. Percentage of each.	Type I - 70% on RS Type [illegible] - 60% on RV Balance are type I
h. Any production deliveries? If not when?	No. Scheduled start, October 1985
i. Percentange of direct manufacturing labor covered by Type I or Type II?	85%
j. Manufacturing standard manhours and actual manhours plus equivalent units for each	See paragraph 3 of our transmittal letter dated 22 Feb 84

PEACEKEEPER/AVCO SYSTEMS DIVISION



PEACEKEEPER/AVCO SYSTEMS DIVISION

	FY 83				FY 84
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qt
Total Actual Hours	16488	16488	16488	13819	12413
Total Standard Hours	2708	2708	2706	2708	2708
Percentage	100	100	100	100	100
Equivalent Units	1	1	1	1	1

CHART 2

FOR OFFICIAL USE ONLY

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE LOGISTICS COMMAND
WRIGHT-PATTERSON AFB OHIO 45433

30 MAR 1984

REPLY TO ATTN OF: PM

SUBJECT: Congressional Request for Information on MIL-STD-1567 (AFSC/CV Ltr, 16 Feb 84)

TO: HQ AFSC/PM
Andrews Air Force Base, DC 20334

1. Attached is the MIL-STD-1567, work measurement information requested by Senator Charles E. Grassley for the OAS/CMI program.

2. According to the AFPRO, Boeing Wichita, the parameters for Chart 1 attached to the AFSC 16 Feb 84 letter are not available. A change to the contractor's computer system would be necessary before the information could be obtained.

3. Our project officer is Mr. Terry Spencer, HQ AFLC/PMMP, AV 787-2466.

FOR THE COMMANDER

RICHARD D. SMITH
Brigadier General, USAF
DCS, Contracting & Manufacturing

1 Atch
OAS/CMI Prog Information

cc: CSEA
IGQ
PMP

Electro Mail
DATE 20 MAR 84
FILE 1657
PAGES 3
OPERATOR

PROGRAM INFORMATION

Specific Program information as requested:

a. Program Name. B-52 OAS/CMI

b. Contractor and Location. Boeing Military Airplane Co., Wichita, KS

c. Program Phase. Production.

d. Is MIL-STD-1567 (USAF) on contract? Yes

e. Is MIL-STD-1567A on contract? No

f. If neither MIL-STD-1567 (USAF) nor MIL-STD-1567A are on contract, when will MIL-STD-1567A be applied? N/A

g. Are labor standards Type I or Type II? Yes
Provide percentage of each. See chart on next page.

h. Have any production deliveries been made? Yes

i. Specify percentage of direct manufacturing labor covered by Type I or Type II standards. See chart on next page.

j. Direct manufacturing standard and actual labor hours: See chart on next page.

FOR OFFICIAL USE ONLY

B-52 OAS/CMI (AFLC) BOEING MILITARY AIRPLANE COMPANY

	FY 83				FY 84
	OCT-DEC 1982 1st Qtr	JAN-MAR 1983 2nd Qtr	APR-JUN 1983 3rd Qtr	JUL-SEP 1983 4th Qtr	OCT-DEC 1983 1st Qtr
TOTAL ACTUAL HOURS	221,265	256,242	225,477	197,251	185,383
TOTAL STANDARD ALLOWED HOURS	202,620	246,304	245,207	202,970	182,507
PERCENTAGE TOTAL DIRECT MFG LABOR COVERED BY STANDARDS	TYPE I/II OAS 95/5% CMI 96/4%	TYPE I/II OAS 92/8% CMI 95/5%	TYPE I/II OAS 92/8% CMI 94/6%	TYPE I/II OAS 95/5% CMI 97/3%	TYPE I/II OAS 93/7% CMI 96/4%

NOTE: 100% COVERAGE BY TYPE I AND TYPE II STANDARDS

PREPARED BY: MILITARY PROGRAM PLANNING
INDUSTRIAL ENGINEERING SECTION
EXT. 6-3770

(2)

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DATA SHEET

PROGRAM NAME: C-5B

CONTRACTOR & LOCATION: Lockheed-Georgia Company, Marietta GA

PROGRAM PHASE: Production

MIL-STD-1567 ON CONTRACT: Yes

MIL-STD-1567A ON CONTRACT: No

DATE MIL-STD-1567 WILL BE APPLIED: N/A

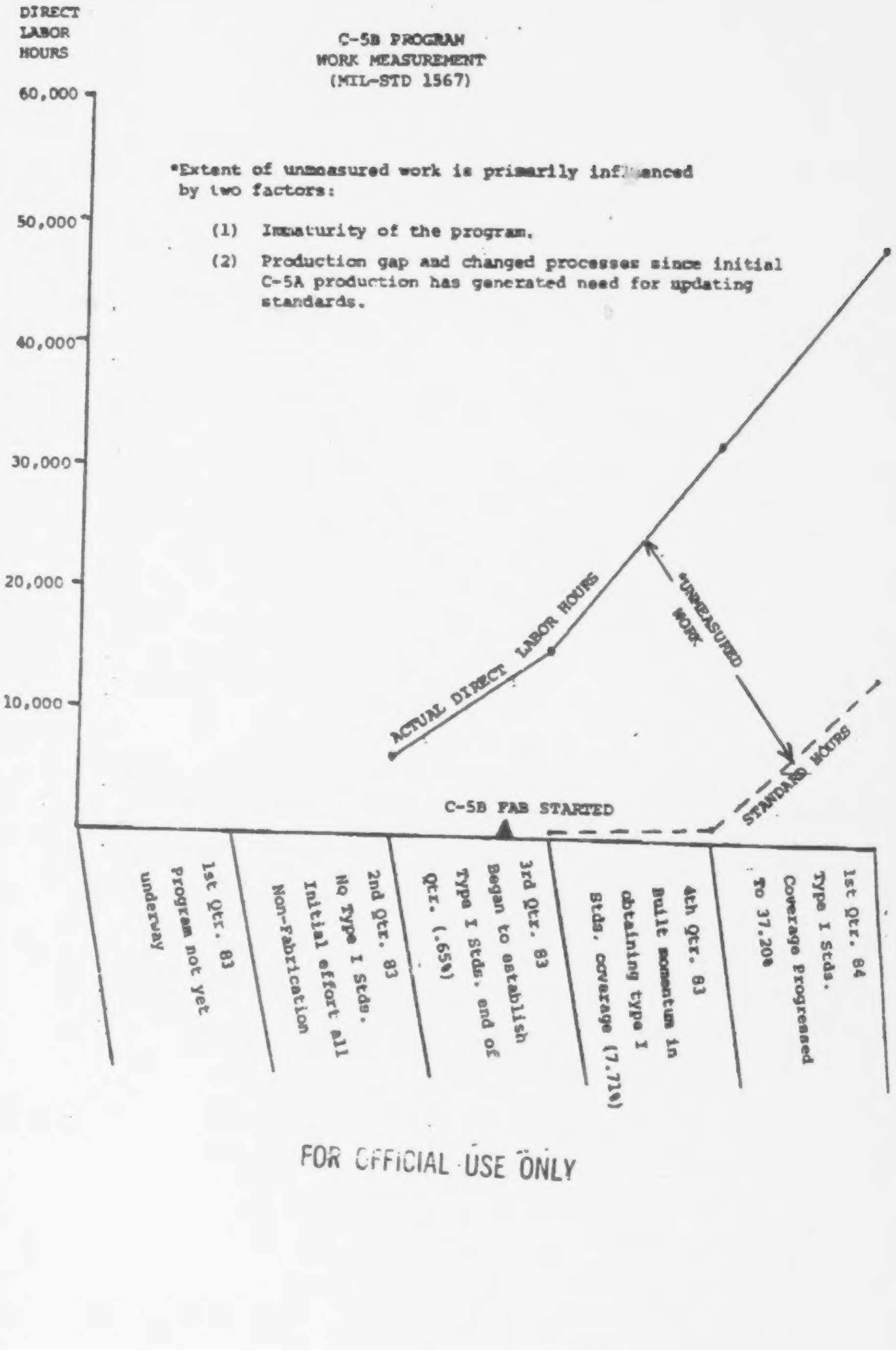
LABOR STANDARDS PERCENTAGES: Type I - 81.2% Type II - 18.8%

PRODUCTION DELIVERIES: Start December 1985.

PERCENTAGE OF DIRECT MANUFACTURING LABOR COVERED BY TYPE I OR TYPE II STANDARDS: 100%
(Type I - 81.2%; Type II - 18.8%)

COMPARISON TOTAL ACTUAL HOURS TO TOTAL STANDARD HOURS:

	Total Actual Hours	Total Standard Hours	Percent Direct Labor Covered by Type I Stds
1st Qtr 83	0	0	0
2nd Qtr 83	6189	0	0
3rd Qtr 83	15522	56	.65%
4th Qtr 83	23096	1381	7.71%
1st Qtr 84	49147	13523	37.20%



C-5B PROGRAM
WORK MEASUREMENT
(MIL-STD 1567)

*Extent of unmeasured work is primarily influenced by two factors:

(1) Immaturity of the program.

(2) Production gap and changed processes since initial C-5A production has generated need for updating standards.

a. Program Name: Over-the-Horizon Backscatter (OTH/B) Radar

b. Contractor & Location: General Electric Company, Syracuse, NY

c. Program Phase: Production

d. MIL-STD 1567: On Contract

e. MIL-STD 1567A: Not on Contract

f. MIL-STD 1567: On Contract

g. Type I = 55% Type II = 45%

h. No production deliveries have been made. Contract calls for one (1) unit scheduled to be delivered on June 1986.

i. See Chart 2 for percentage of direct manufacturing labor caused by Type I or Type II standards.

j. See Charts 1 & 2 attached (In chart 2 unit numbers do not apply).

CONUS OTH INITIAL OPERATING SECTOR
DIRECT MANUFACTURING LABOR

FY QTRS	83-1	83-2	83-3	83-4	84-1
TOTAL ACTUAL HOURS	727	2505	3051	2853	3151
TOTAL STANDARD HOURS	526	1958	3108	2836	3437
PERCENTAGE, TOTAL DIRECT MANUF LABOR (EXCL EXTRA WORK) COVERED BY STANDARDS	83%	81%	83%	82%	82%
PERCENTAGE, TYPE 1 STANDARD	49%	53%	53%	53%	55%

CHART 2

Atch 1
12 of 12

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CONUS OTH INITIAL OPER SECTOR

(START OF 1st SECTOR UNIT)

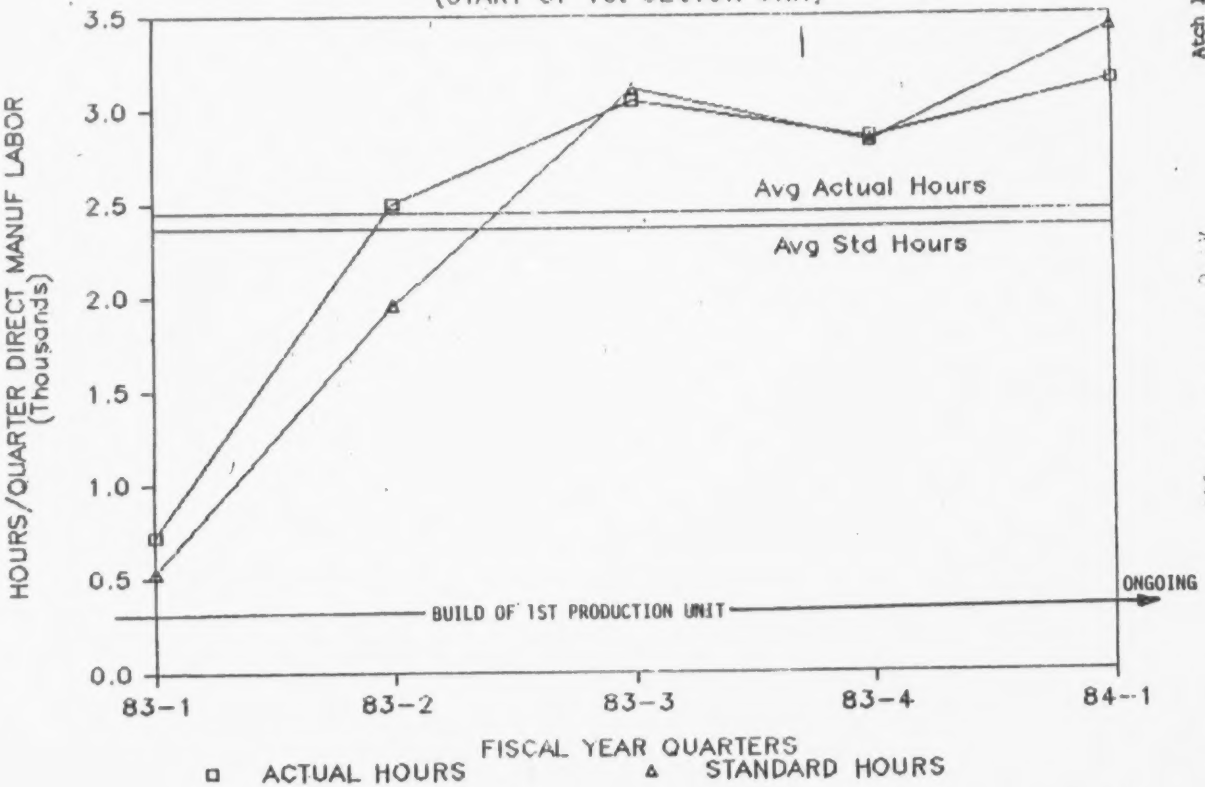

CHART 1

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INFORMATION REQUIREMENTS

Specific Information Required

a. Program Name is E-3a

b. Contractor and location is the Boeing Company, Seattle, Washington

c. Program Phase is Production.

d. MIL-STD 1567 (USAF) as tailored, is on contract.

e. MIL-STD 1567A is not on contract.

f. N/A

g. Labor standards are both Type I and Type II. Type I is approximately 97 percent and Type II is approximately 3 percent. These figures are based on a sample survey accomplished during the summer of 1983.

h. Thirty-eight production units (including US & NATO) have been made through December 1983.

i. See chart following.

j. Chart 1 - unitized standard data is not available; therefore chart not provided.

Chart 2 - See chart following.

E-3A Production

	1st Qtr FY 83	2nd Qtr FY 83	3rd Qtr FY 83	4th Qtr FY 83	1st Qtr FY 84
Total Actual Hours	35,758	53,381	47,518	47,593	39,795
Total Standard Hours	15,384	24,315	21,686	24,392	18,000
Percentage Total direct mfg labor covered by standards	93%	91%	91%	95%	95%

1. Hours provided are the U.S., NATO & RSAF.
2. Hours provided are defined by AFPRO as "Total Actual Touch Labor Hours covered by Type I Labor Standards" (there are approximately 2.7% Type II standards in these numbers).
3. Hours provided are defined by AFPRO as "Total Earned Standard Hours"
4. Figures provided are defined by AFPRO as "Percentage, Total Touch Labor Hours covered by Type I Labor Standards per tailored MIL-STD 1567 on Contract" (These figures include approximately 2.7% Type II Standards). If field operations are included, BAC's true, overall coverage would be approximately 59% on the average. A variance to standard can be calculated by dividing Total Actual Hours by Total Standard Hours.

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DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE LOGISTICS COMMAND
WRIGHT-PATTERSON AIR FORCE BASE OHIO 45433

12 APR 1984

REPLY TO ATTN OF: PM

SUBJECT: Congressional Request for Information on MIL-STD-1567 (AFSC/CV Ltr, 16 Feb 84)

TO: HQ AFSC/PM

1. The following information is furnished concerning the EF-111A Program and MIL-STD-1567 as requested:

a. EF-111A TJS.

b. Grumman Aerospace Corporation, Bethpage, New York, 11714.

c. Production phase.

d. MIL-STD-1567 is not included.

e. MIL-STD-1567A is not included.

f. It has been determined that due to the final phase of production that it would not be cost-effective to implement MIL-STD-1567A into the EF-111A Program.

g. Both Type I and II labor standards apply, but the percentage of each is not available.

h. Twenty-two (22) aircraft have been delivered out of the 42 program total. Only 12 kits are left to be delivered and only 8 aircraft remain to be inducted to Grumman.

i. Percentages of Type I and II labor standards are not readily available. Grumman maintains an in-house Work Measurement Program, however, they do not have reports of the type required by MIL-STD-1567. Grumman said it would take considerable time and money to generate the data required by MIL-STD-1567A. The NAVPRO confirmed that the data requested is not readily available.

j. See paragraph 1.i. above.

2. Our project officer is Mr. Terry Spencer, HQ AFLC/PMMP, AUTOVON 787-2466.

FOR THE COMMANDER

Francis P. Williams Jr

FRANCIS P. WILLIAMS, JR
Colonel, USAF
Asst DCS, Contracting
& Manufacturing

① Electro Mail
DATE 4-12-84 TIME 0929
OPERATOR SS PAGES 1

AFLC - Lifeline of the Aerospace Team

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CONGRESSIONAL REQUEST FOR MIL-STD-1567 DATA

F-15 PROGRAM/MCAIR

1. PROGRAM NAME: F-15.

2. CONTRACTOR AND LOCATION: McDonnell Douglas Corp, St Louis, MO.

3. PROGRAM PHASE: Production - current rate only 3/mo.

4. IS MIL-STD-1567 (USAF) ON CONTRACT?

No, the contractor has a work measurement system, but it does not comply with MIL-STD-1567 (USAF).

5. IS MIL-STD-1567A ON CONTRACT?

No, see number 4 above.

6. IF NEITHER MIL-STD-1567 (USAF) NOR MIL-STD-1567A ARE ON CONTRACT, WHEN WILL MIL-STD-1567 BE APPLIED?

McAir is being requested to submit a proposal to incorporate MIL-STD-1567A into current and future contracts. McAir's proposal will include cost and schedules to develop, implement and maintain a work measurement system that meets MIL-STD-1567A requirements. Pricing data will be evaluated to determine cost effectiveness.

7. ARE LABOR STANDARDS TYPE I OR TYPE II? PROVIDE PERCENTAGE OF EACH.

Based on strict interpretation of MIL-STD-1567A, McAir's combined work measurement coverage on all three major programs currently at the plant (F-15, F-18, and AV-8B) consists of 20 percent Type I and 80 percent Type II standards. McAir, however, considers the "Type II" standards to be engineer standards (Type I) in that they are developed and maintained by qualified industrial engineers working from a combination of observations and documented standard data. Sheet metal fabrication standards are computer generated from both industrial engineer standard data and work scope inputs developed by production planners as part of an automated planning system. Although maintained regularly, McAir has not updated the Type II standards to Type I engineer standards via an acceptable engineering method such as MTM, time study, etc.; thus they cannot be classified as Type I by the MIL-STD-1567A definition.

8. HAVE ANY PRODUCTION DELIVERIES BEEN MADE?

Yes, 841 F-15s as of 31 Mar 84 (includes 20 RDT&E A/C).

9. SPECIFY PERCENTAGE OF DIRECT MANUFACTURING LABOR COVERED BY TYPE I OR TYPE II STANDARDS.

Direct labor hours expended against standards are currently 76 percent of McAir total touch labor. This was determined by summarizing weekly averages of hours expended against standards versus total hours expended per recent production records for all three major programs. This data is not readily available for previous quarters.

10. PROVIDE DIRECT MANUFACTURING STANDARD AND ACTUAL LABOR HOURS IN FORMAT SHOWN. SPECIFY SYSTEM (UNIT NUMBERS) FOR WHICH DATA IS APPLICABLE.

See Attached Chart. It should be noted that the F-15 standard and actual hours are reported in terms of average man-hours per ship set for the quarter.

1 Appendix
A. Chart

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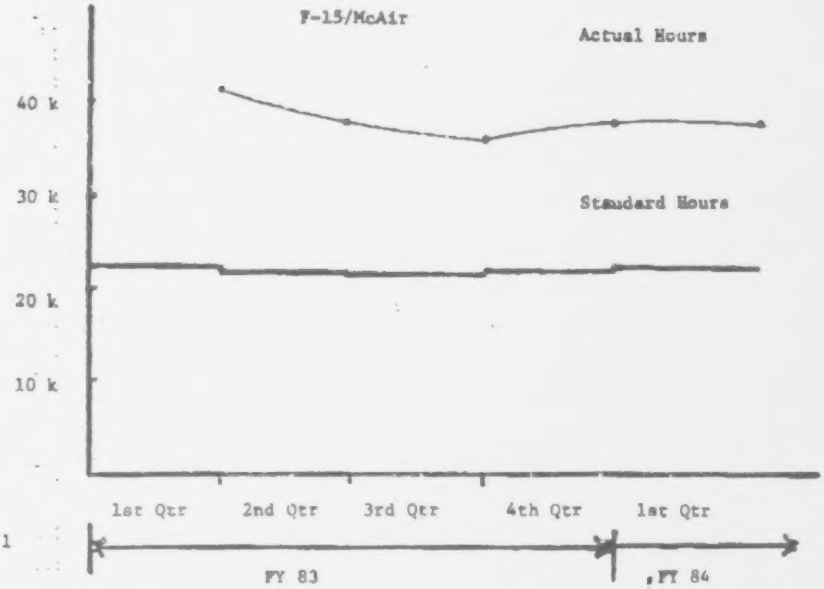

CHART 1

F-15/McAir

	FY 83				FY 84
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
Total * Actual Hours	40,850	37,800	36,769	37,473	37,193
Total * Standard Hours	22,978	22,462	22,313	22,397	22,442
Percentage Total direct Mfg labor Covered by Standards	76	76	76	76	76

CHART 2

* Based on Ave Manhours Per Shipset

APPENDIX A

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2 of 3

DEPARTMENT OF THE AIR FORCE
DET 27, AF CONTRACT MGT DIV, AF PLANT REPRESENTATIVE OFC (AFSC)
GENERAL DYNAMICS, FT WORTH DIVISION, P.O. BOX 371
FT WORTH, TX 76101

REPLY TO ATTN OF: PD

21 February 1984

SUBJECT: Congressional Request for Information on Mil-Std 1567

TO: ASD/PMD (Lt Col V. L. Grosse)

1. This letter is in response to Senator Charles E. Grassley's request for information on Work Measurement Indicators.

2. Specific information provided follows requested format.

a. Program name - F-16 (GD/FW produced).

b. Contractor and location - General Dynamics, Fort Worth Division.

c. Program Phase - Production.

d. Is Mil-Std 1567 (USAF) on Contract - Yes (Modified Version).

e. Is Mil-Std 1567A on Contract - No

f. If neither Mil-Std 1567 (USAF) nor Mil-Std 1567A are on contract, when will Mil-Std 1567A be applied? N/A

g. Are labor standards Type I or Type II? Provide percentage of each. See Chart 2 below.

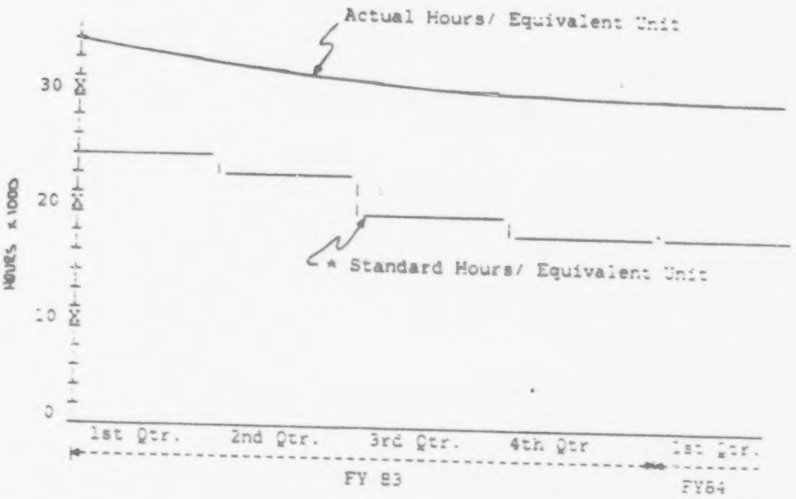
h. Have any production deliveries been made? Yes, 824 F-16s as of 2-16-84 (Delivery from GD/FW).

i. Specify percentage of direct manufacturing labor covered by Type I or Type II standards. 100%

j. Provide direct manufacturing standard and actual labor hours in format shown in Attachment 3, Charts 1 and 2. Specify system "Unit Numbers" for which data is applicable.

(1) Chart 1 - Standards are not available by equivalent units. The contractor's standard accumulation techniques relate to lot numbers and contract releases. They are studying the possibility of collecting standards by the various components/units in conjunction with their implementation of the Material Requirements Planning (MRP) system.

F-16/ GENERAL DYNAMICS



F-16/ GENERAL DYNAMICS F/W

	FY 83				FY 84
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
TOTAL ACTUAL HOURS	2,181,314	1,617,145	1,494,386	1,491,249	1,399,651
TOTAL STANDARD HOURS	1,507,657	1,250,400	949,500	969,300	837,300
PERCENT LABOR HOURS TYPE I STDS.	84.5%	84.2%	82.9%	82.8%	83.4%

* Standard cost per unit is not available. This was estimated based upon the actual cost in each lot and the average performance during this period. A lot equals four months production.

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JOINT CRUISE MISSILES PROJECT
WASHINGTON, D.C. 20363

IN REPLY REFER TO

JCM-5119/JL
Ser CL-328

From: Director, Joint Cruise Missiles Project
To: HQ AFSC/PMD
Andrews Air Force Base, D.C. 20334

Subj: Congressional Request for Information on MIL-STD-1567

Ref: (a) Ltr from HQ AFSC/CV, same subject

1. In response to reference (a), attach 2 the following information is provided:

a. Joint Cruise Missile Engine Program (CMEP).

b. Williams International Inc., 2480 West Maple, Walled Lake, Michigan, 48088.

c. Production

d. Yes.

e. No.

f. MIL-STD-1567A will be incorporated into the FY84 buy currently being negotiated. MIL-STD-1567 has been on all contracts since 1980.

g. Approximately 83% of all direct manufacturing labor is covered by Type I standards. The remaining 17% is covered by Type II.

h. Yes. Currently finishing FY82 buy and beginning FY83 deliveries.

i. See Attach B.

j. See Attach A. Unable to identify data by "unit numbers".

2. It must be noted that CMEP is a joint program satisfying Air Force air launched and ground launched as well as Navy sea launched Cruise Missile requirements. The data presented covers labor hours accrued in building F-107 engines for all three missiles and cannot be broken out by specific variant.

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2.

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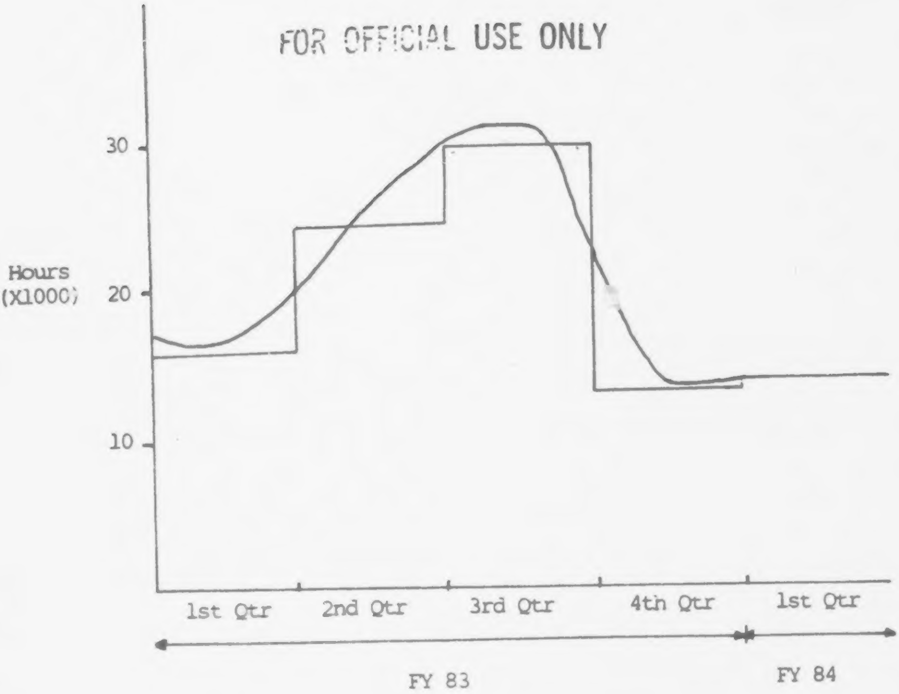

STD VS. ACTUAL HOURS
(UNITIZED DATA NOT AVAILABLE)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
Total Actual Hours	16,504	25,194	30,208	12,842	13,664
Total Standard Hours	15,948	24,466	29,972	12,788	13,655
Percentage Total Direct Mfg Labor Covered by Standards	96.6	97.1	99.2	99.6	99.6

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DATA SHEET

PROGRAM NAME: KC-135 Re-Engining Program

CONTRACTOR & LOCATION: Boeing Military Airplane Company, Wichita KS

PROGRAM PHASE: Production

MIL-STD-1567 ON CONTRACT: Yes

MIL-STD-1567A ON CONTRACT: No

DATE MIL-STD-1567 WILL BE APPLIED: Currently on contract.

LABOR STANDARDS PERCENTAGES: Type I = 91%; Type II = 09%.

PRODUCTION DELIVERIES: Three equivalent units produced to date; one unit delivered. Total of 350 expected.

PERCENTAGE OF DIRECT MANUFACTURING LABOR COVERED BY TYPE I OR TYPE II STANDARDS: 100% (Type I = 91%; Type II = 09%)

COMPARISON TOTAL ACTUAL HOURS TO TOTAL STANDARD HOURS: Not readily available quarter-by-quarter. However, AFPRO reports the following cumulative figures for this program to date for manufacturing direct labor:

Total Actual Hours	Total Standard Hours	% Type I Stds
188,760	78,000	91%

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AGM-65D IMAGING INFRARED MAVERICK MISSILE
(Hughes Aircraft Company, Tucson, AZ)

a. Program Name - AGM-65D Imaging Infrared Maverick Missile.

b. Contractor and Location - Hughes Aircraft Company, Missile Systems Group, Air Force Plant 44, Tucson, AZ.

c. Program Phase - Segment I Pilot Production, 200 missiles.

d. Is MIL-STD-1567 (USAF) on contract? - The MIL-STD was not applied to Full Scale Engineering Development or Segment I Pilot Production. The contractor had an acceptable Work Measurement System but it was not MIL-STD-1567 (USAF).

e. Is MIL-STD-1567A on contract?. - It is on contract for Segment II, Low Rate Production. The first Segment II missile delivery is scheduled for December 1984.

f. N/A

g. Are Labor Standards Type I or Type II? Provide percentage of each. - Presently the Maverick Segment I production has both Type I and Type II standards. As of December 31, 1983, the following percentages apply:

Type I - 36.0%
Type II - 64.0%

The Segment II contract requires 80% Type I standards coverage by the end of 4th quarter production, November 1985.

h. Have any production deliveries been made? - The first production (Segment I) missile was delivered in October 1983. As of 31 Jan 84, 11 missiles have been delivered against a contractual requirement of six.

i. Specify percentage of direct manufacturing labor covered by Type I or Type II standards. - See attached chart.

j. Provide direct manufacturing standard and actual labor hours in format shown. Specify system "unit numbers" for which data is applicable. - See attached chart.

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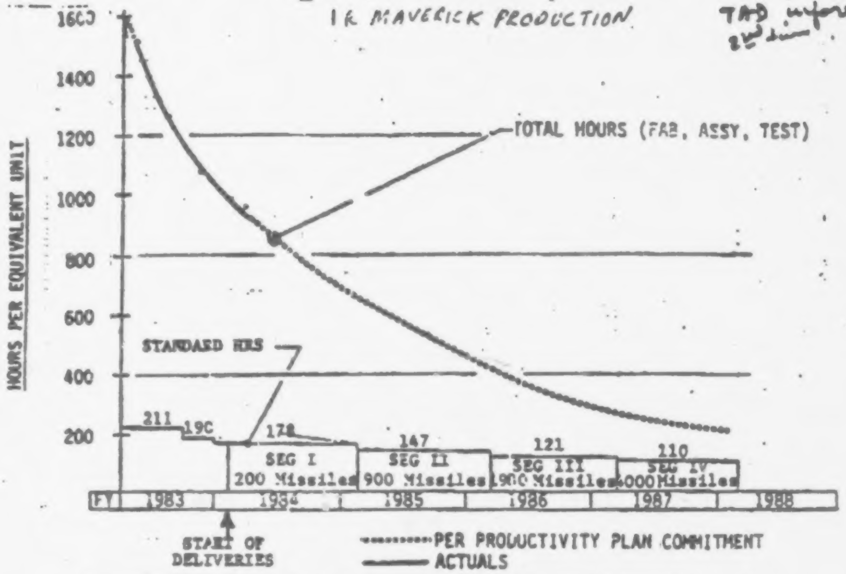
IR MAVERICK PRODUCTION

TAD informal
2nd draft



SEGMENT I PILOT PRODUCTION
CONTRACT F33657-C-78-0468
ACTUAL TO DATE

TOTAL DIRECT MFG LABOR HOURS (FAB, ASSY, TEST)	7267	20201	[illegible]22	25853	10512
TOTAL STANDARD HOURS EARNED	1016	3370	5278	4628	1916
% DIRECT MFG HRS COVERED BY STDS	79.3	77.6	66.6	52.2	69.8
	JFM	AMJ	JAS	OND	JANUARY
	FY 1983			FY 1984	

1st Production
Missiles Delivered

- FIRST QUARTER OF FISCAL YEAR 1984 CONTAINS ONE LESS WORK WEEK THAN PRIOR QUARTERS.
- DIFFERENCE BETWEEN TOTAL DIRECT MANUFACTURING LABOR HOURS AND TOTAL MEASURED MANUFACTURING LABOR HOURS IS AS DEFINED IN THE PRODUCTIVITY PLAN.

COMPETITION SENSITIVE
NOT TO BE DISCLOSED
Information contained herein is competition sensitive to Hughes Aircraft Company, is submitted in confidence and is privileged and exempt from disclosure by the U.S. Government under paragraph (b) of the Freedom of Information Act 5 USC 552 and subject to 18 USC 1905.

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DEPARTMENT OF THE AIR FORCE
HEADQUARTERS ARMAMENT DIVISION (AFSC)
EGLIN AIR FORCE BASE, FLORIDA 32542

FEB 21 [illegible]

REPLY TO ATTN OF: NAVAIR/PMA-242-1, Wash DC 20361

SUBJECT: Congressional Request for Information Mil-Std 1567 (Your Ltr, 16 Feb 84)

TO: HQ AFSC/PM

1. The following information is provided for the HARM program per your request.

a. Program Name: High Speed Anti-Radiation Missile (HARM)

b. Contractor and Location: Texas Instruments, Inc, Lewisville, Texas

c. Program Phase: Production

d. Is Mil-Std 1567 (USAF) on Contract: No.

e. Is Mil-Std 1567A on Contract? No.

f. If neither Mil-Std 1567 (USAF) nor Mil-Std 1567A are on contract, when will Mil-Std 1567A be applied? Not earlier than FY 85 production contract.

g. Are labor standards Type I or Type II? Not applicable.

h. Have production deliveries been made? Yes.

i. Specify percentage of direct manufacturing labor covered by Type I or Type II standards: Not applicable.

j. Provide direct manufacturing standard and actual labor hours. Specify "unit" numbers for which data is applicable:

	1Q 83	2Q 83	3Q 83	4Q 83	1Q 84
Total * Actual hours	218K	237K	238K	241K	222K
Total Std hours	N/A	N/A	N/A	N/A	N/A

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Percent Total Direct Mfg Labor Covered by Standards	0	0	0	0	0

*Total actual hours for FY 81 production contract during period 1Q 83 through 1Q 84 is 953K hours for 84 units or 11.3K hours/unit. Total actual hours for FY 82 production contract during period 1Q 83 through 1Q 84 is 1525K hours for 277 units or 5.5K hours/unit.

2. HARM is a joint service program. As lead service, the Navy should respond to Congressional Inquiries.

Norman D. Skrenes
NORMAN D. SKRENES, Lt Col, USAF
Deputy Program Manager for HARM
Defense Suppression Systems

CC: AD/PMDG
AD/YG
HQ AFSC/SDZ
HQ AFSC/PMD

a. ASAT

b. Boeing Aerospace Co., Kent, Washington

c. Validation Phase (Prototype Development)

d. Yes

e. No. Wasn't issued at time of contract award.

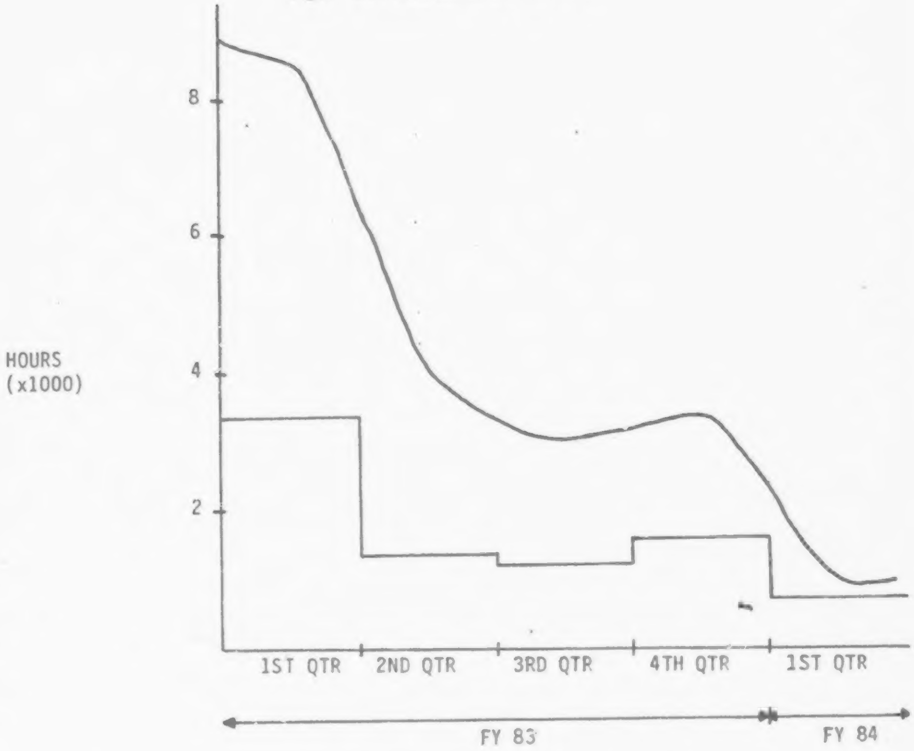
f. MIL-STD-1567A is currently planned for implementation on Phase 1-D (Production) with an ATP now anticipated for 1 Feb 85

g. Type I - 97%
Type II - 3%

h. Based on an ATP of 1 Feb 85 the first production delivery would be approximately 1 May 86.

i. See attached sheet.

j. See attached sheet.



STD VS. ACTUAL HOURS
(UNITIZED DATA NOT AVAILABLE)

	1ST QTR	2ND QTR	3RD QTR	4TH QTR	1ST QTR
TOTAL ACTUAL HOURS	8597	4006	3143	3382	1032
TOTAL STANDARD HOURS	3449	1406	1305	1674	705
PERCENTAGE TOTAL DIRECT MFG LABOR COVERED BY STANDARDS	40.1	35.1	41.5	49.5	68.3

a. ASAT

b. LTV Aerospace & Defense Systems
Vought Missile & Advanced Programs Division
Dallas, TX

c. Validation Phase (Prototype Development)

d. No. A cost analysis for this effort indicated it would not have been cost effective to apply MIL-STD-1567.

e. No. Was not issued at time of contract award.

f. Current planning is to implement MIL-STD-1567A on the Production Contract which is anticipated for 1 Feb 85.

g. Presently, this contractor does not have a work measurement system.

h. Based on an ATP of 1 Feb 85 the first production delivery would be in Aug 87.

i. Same as "g" above.

j. Same as "g" above.

LLLGB

a. Low Le . Laser Guided Bomb (PAVEWAY III)

b. Texas Instruments Incorporated
13500 North Central Expressway
Dallas, Texas 75266

c. Initial Production

d. No

e. No

f. Contractor has in place on the PAVEWAY III contract a work measurement system which meets some, but not all, the requirements of MIL-STD-1567. Contractor has no intention of unilaterally installing a MIL-STD-1567 fully compliant program. The program office plans to require full MIL-STD-1567A compliance on production Option D to be negotiated in Jul 84.

g. None to date

h. No. Production deliveries will start in May 1984.

i. None to date

j.

	FY 83				FY 84
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Total Actual Hours	-0-	-0-	6,003	25,519	22,898
Total Standard Hours	-0-	-0-	-0-	-0-	-0-
Percentage of Labor Covered by Standards	-0-	-0-	-0-	-0-	-0-
Production Deliveries	-0-	-0-	-0-	-0-	1*

*Pre-Production Unit

2. The other AD program information requested (HARM, AIM-7M, and AIM-9M) was provided by AD/PM to AFSC/PM by letter on 30 Mar 84 with the exception of the AIM-9M second source, Ford Aerosapce, Newport Beach CA. We are still working this problem, but presently Ford refuses to release the required data.

3. Questions concerning this response should be addressed to Mr. Bill Roberts, AD/PMD, AV 872-2196.

David W. Krahenbuhl

DAVID W. KRAHENBUHL, Colonel, USAF
Deputy for Contracting and Manufacturing

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a. Program Name: CNCE. TRI-TAC

b. Contractor and Location: Martin Marietta, Orlando, FL.

c. Program Phase: Production.

d. MIL-STD-1567 (USAF) is not on contract.

e. MIL-STD-1567A is not on contract.

f. Production RFP was prepared before MIL-STD-1567A was published. MIL-STD-1567 was not applicable to this program.

g. 89% of labor standards are Type 1 and 11% are Type 2.

h. No production deliveries have been made as yet. The first production delivery is scheduled for the third quarter of 1987.

i. 100% of direct manufacturing labor is covered by standards.

j. Chart 2 (attached) is generic data for Martin Marietta. No data available for Chart 1.

PROGRAM/CNCE

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
Total Actual Hours	53,011	53,011	89,412	89,413	57,566
Total Standard Hours	36,360	36,360	66,250	66,250	40,371
Percentage Total direct mfg labor covered by standards	100	100	100	100	100
	FY 83				FY 84

FOR OFFICIAL USE ONLY

a. Program Name: TROPO (TRC-170). TRITAC

b. Contractor and Location: Raytheon Co., Waltham, MA.

c. Program Phase: Production.

d. MIL-STD-1567 is not on contract.

e. MIL-STD-1567A is not on contract.

f. MIL-STD-1567A will be included in RFP for production follow-on contract.

g. 30% of labor standards are Type 1 and 70% are Type 2.

h. No production deliveries have been made as yet. The first production delivery is scheduled for December 1984.

i. 100% of direct manufacturing labor is covered by standards.

j. Chart 2 (attached) is generic data for Raytheon. No data available for Chart 1.

PROGRAM/TROPO (TRC-170)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
Total Actual Hours	15,786	24,485	24,323	42,939	27,050
Total Standard Hours	5,173	6,732	6,099	12,173	9,348
Percentage Total direct mfg labor covered by standards	84.6	82.9	76.8	77.6	82.9
	FY 83				FY 84

Analysis of Overpricing of
Part #12Y952-3 Duct Assembly
General Dynamics, Fort Worth Texas

	Negotiated Price		Estimated Actual[1]		AF Audit Agency Calculated Reasonable Price	
Standard Labor Hour		11.70		11.70		11.7
Realization Factor	59%	6.90	-39.3%	4.60[3]	-0- [2]	-0-
Scrap & Rework Factors	5.6%	1.05				
Total Hours		19.65		7.10[4]		11.7
Composite Rate[5]	$50.63	$ 994.88	$50.63[6]	$359.47		$592.37
Material		83.82		105.53		83.82
Total Cost		$1,078.70		$ 465.00		$676.19
Profit		150.43		764.13 ← !!		94.33
Total Price		$1,229.13		$1,229.13		$770.52

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[1] At the time of the audit, contractor actual costs were incomplete. Defense Contract Audit Agency (DCAA) furnished actual total unit costs of $713.00 on a prior purchase of nine units but did not furnish a breakdown.

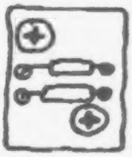
[2] In an attempt to determine what a price analysis could have reasonably produced at the time the contract was negotiated, we determined it was reasonable to assume the analyst could have recognized the current experience of the contractor with similar parts would make the realization factor inappropriate and calculated reasonable hours without the adjustment.

[3] In estimated actual hours, realization factors and scrap and rework factors were given as one figure rather than broken out.

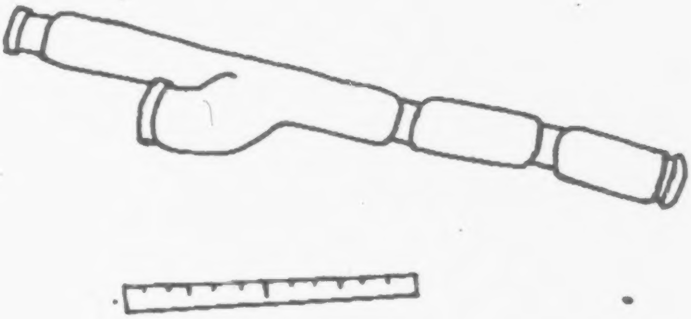
[4] We were able to determine actual labor hour and material costs, however, ~~the~~ actual costs which determine the composite labor rate were incomplete. We, therefore, extended actual labor hours with the original projected rate. The analysis shows the impact of the realization factor used to provide for loss of learning due to breaks in production on the F-111 parts. However, the factor was not necessarily applicable to this part because similar parts were currently being made for the F-16. Therefore, the use of the factor, although applicable to some F-111 parts, resulted in the overpricing of this part. However, since the factors used are averages, there can be offsetting underpricing on other parts. We were unable to determine the impact on the total spares contract.

[5] The composite rate includes direct labor costs, overtime premiums, overhead, and factored labor costs such as quality control and spares processing. Defense Contract Audit Agency (DCAA) evaluates these factors periodically and their analyses is used in the negotiation of the basic agreement.

[6] We estimate the variance in other factors to not substantially change the profit experience.



OC-ALC
5999-01-135-3522
$715.59 ea. for 4
Circuit Card



Sample No: 15677 SM-ALC
NSN: 1560-00-754-7559BJ
PN: 12Y952-3
Noun: Duct Assembly
Mfg: General Dynamics
Price Paid: $1,229.13 ea.
Pacer Price: $206.75 ea.
Qty: 4 ea.

0 6

Electro Mail
DATE 6-14-84 TIME 6:46
OPERATOR S.S PAGES 52

Analysis of Underpricing of
Part #12M5141-1 Housing Assembly — F16
General Dynamics, Fort Worth Texas

	Negotiated Price		Estimated Actual[1]		AF Audit Agency Calculated Reasonable Price[2]	
Standard Labor Hour		.2		3.6		3.6
Realization Factor	45%	.09	27.8%	1.0[3]	45%	1.62
Scrap & Rework Factors	5.6%	.02			5.6%	.29
Total Hours		.31		4.6		5.51
Composite Rate	$161.97[4]	$ 50.21	$51.92[5]	$238.83	$51.92[5]	$286.07
Material		127.94		67.28		127.94
Total Cost		$ 178.15		$ 306.11		$ 414.01
Profit		23.87		41.02		57.75
Total Price		$ 202.02		$ 347.13		$ 471.76

---

[1] Complete actual costs were not available at the time of our audit.

[2] We attempted to determine what would have been reasonable based upon information at the time of negotiation.

[3] In estimated actual hours, realization factors and scrap and rework factors were given as one figure rather than broken out.

[4] Due to the estimating methodology used, namely formula pricing, we were unable to determine the composite rate used by the contractor. If calculated using other known factors and the proposed price, the above rate is the result.

[5] Composite rate in effect at the time of proposal.

3/

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE CONTRACT MANAGEMENT DIVISION (AFSC)
KIRTLAND AIR FORCE BASE, NM 87117

13 OCT 1983

REPLY TO ATTN OF: CC

SUBJECT: Letter of Appreciation

TO: AFCMD/PD (Mr Ompal Chauhan)

1. On behalf of the Department of Defense and the Department of the Air Force, I'm expressing my appreciation for your participation in the Productivity Improvement Review that was conducted at Raytheon Company, Lowell, Andover and Waltham facilities from 13-23 Sep 83. The assistance you provided over this period of time added to both the efficiency of the team and the overall success of the review itself.

2. You're to be commended for the time and effort you contributed to this review as a member of the Control/Reduction of "Variance", Reduction of Standard Hours, and Control/Reduction of Performance Factors team. Your technical knowledge, enthusiasm, and ability to adapt to different situations were invaluable to the review.

3. Thanks again, Ompal, for your continued cooperation during the review and your enthusiastic support of this important DOD program.

D. Stukel
DONALD J. STUKEL
Brigadier General, USAF
Commander

UNITED STATES AIR FORCE
CIVILIAN POTENTIAL APPRAISAL

card
4-7-83

CPA

PART I – PERSONAL DATA

EMPLOYEE *(Last Name, First, Middle Initial)* CHAUHAN, Ompal S.			PERIOD OF APPRAISAL FROM 1 Apr 82 — TO 31 Jan 83
ORGANIZATION ASSIGNED TO *(Also enter office symbol)* HQ AFCMD/PDP Kirtland AFB, NM 87117			REASON FOR APPRAISAL *(Check one)* ☒ ANNUAL ☐ APPRAISAL CURRENT ☐ OTHER *(Specify)*
SSAN 436-78-3513	PAY PLAN AND JOB SERIES GS-896	GRADE 13	RECEIVED APR 1983

PART II – OFFICIALS'/EMPLOYEE'S SIGNATURES

REVIEWING OFFICIAL

DATE 3-25-83	NAME, GRADE, DUTY TITLE JACK B. BRYAN, Colonel, USAF Director of Manufacturing Operations	SIGNATURE Jack B. Bryan

RATING OFFICIAL *(Supervisor)*

DATE 3/24/83	NAME, GRADE, DUTY TITLE ALAN A. FIELDING, Chief Manufacturing Assessment Division	SIGNATURE Alan A. Fielding

ENDORSING OFFICIAL *(Optional)*

DATE	NAME, GRADE, DUTY TITLE	SIGNATURE

EMPLOYEE

DATE 3-30-83	SIGNATURE *(Does not indicate employee agreement or disagreement with the appraisal)* Ompal S. Chauhan

AF FORM 1287

PART IV – BEHAVIORAL DIMENSIONS (Continued)

10. The employee picks up new ideas and procedures quickly; is easy to instruct; can adapt to the demands of new situations.

1 2 3 4 5 6 7 [✓ 8] 9

New ideas are quickly absorbed by Mr Chauhan, and he adapts to new situations very rapidly.

11. The employee explains, instructs, and converses with others in a clear and effective manner.

1 2 3 4 5 6 [✓ 7] 8 9

12. The employee prepares written materials that are effective and easily understood.

1 2 3 4 5 6 7 [✓ 8] 9

Mr Chauhan's written materials are easily understood and are effective in getting his point across.

13. The employee's overall job performance in his/her present job.

1 2 3 4 5 6 7 [✓ 8] 9

Mr Chauhan's overall job performance is outstanding in his present job. He's been effectively handling a top priority project for some time.

14. The employee's ability to direct and train others, oversee and document work activities, select and evaluate personnel, implement management directives, or substitute for absent supervisor.

1 2 3 4 5 6 [✓ 7] 8 9

15. The employee's ability to implement Air Force directives and regulations; plan, organize and monitor work projects; or represent the unit through demonstrations or briefings.

1 2 3 4 5 6 [✓ 7] 8 9

ADDITIONAL INSTRUCTIONS: Using the scale given, circle the appropriate rating on each statement below.

16. Compared to other individuals doing about the same type of work, does the employee complete his/her work (projects, duties and tasks) faster?

1 FAR SLOWER
2 VERY MUCH SLOWER
3 Slower
4 Slightly slower
5 The same speed
6 Slightly faster
7 Faster
[✓ 8] VERY MUCH FASTER
9 FAR FASTER

Mr Chauhan completes his tasks rapidly and always on time.

17. Compared to other individuals doing about the same type of work, how is the employee's work productivity during his/her work time?

1 THE LEAST PRODUCTIVE
2 MUCH LESS PRODUCTIVE
3 Less productive
4 Slightly less productive
5 The same productivity
6 Slightly more productive
7 More productive
[✓ 8] MUCH MORE PRODUCTIVE
9 THE MOST PRODUCTIVE

Mr Chauhan produces effective work in a large quantity, effectively utilizing his work time.

18. Compared to other individuals doing about the same type of work, does the employee spend a greater percentage of time on the job working, as opposed to socializing, sitting idle, involved in personal affairs, taking breaks, etc.?

1 THE LEAST TIME WORKING
2 MUCH LESS TIME WORKING
3 Less time working
4 Slightly less time working
5 The same time working
6 Slightly more time working
[✓ 7] More time working
8 MUCH MORE TIME WORKING
9 THE MOST TIME WORKING

19. Compared to other individuals doing about the same type of work, does the employee show more initiative in starting, carrying out and completing projects?

1 THE LEAST INITIATIVE
2 FAR LESS INITIATIVE
3 Less initiative
4 Slightly less initiative
5 The same initiative
6 Slightly more initiative
7 More initiative
[✓ 8] MUCH MORE INITIATIVE
9 THE MOST INITIATIVE

Mr Chauhan displays great initiative in starting, creating, and completing projects.

PART III – RATING PURPOSE AND INSTRUCTIONS

PURPOSE Part IV describes 19 behavioral dimensions. The ratings you assign to each of these dimensions will result in an overall employee ranking that will be used for competitive promotion, reassignment, change to lower grade, and or selection for training. While ratings are based on observable behavior in the current position, an overall rating indicating employee potential will be derived based upon the requirements of the position to be filled. INSTRUCTIONS (1) Based on your observations of the employee, rate EVERY behavioral dimension. Although employees should receive a wide range of ratings showing their particular strengths and weaknesses, most ratings should be in the CENTRAL RANGE. (2) Use the following scale in making the ratings. Circle the scale number in the appropriate box next to each dimension. A rating of 1, 2, 8 or 9 requires justification. Justification must be legible and limited to the bracketed space provided.

LOW RANGE	CENTRAL RANGE	HIGH RANGE
1. VERY POOR	4. Slightly below average	7. Above average
2. FAR BELOW AVERAGE	5. Average	8. FAR ABOVE AVERAGE
3. Below average	6. Slightly above average	9. OUTSTANDING

PART IV – BEHAVIORAL DIMENSIONS

1. The employee is energetic on the job, is willing to exert effort accomplishing tasks.

1 2 3 | 4 5 6 | 7 [✓ 8] 9

Mr Chauhan exhibits great energy on the job and exerts tremendous effort to accomplish tasks.

2. The employee performs job-associated tasks well, whether they require physical, mechanical, technical, professional, or managerial skills; is considered very skillful on the job.

1 2 3 | 4 5 6 | 7 [✓ 8] 9

Mr Chauhan performs his tasks very skillfully and is considered an expert in the field he majors in.

3. The employee follows through well, accomplishes all tasks required to complete a job in a timely manner on his/her own.

1 2 3 | 4 5 6 | 7 [✓ 8] 9

All tasks are accomplished by Mr Chauhan in a timely manner on his own initiative without followup required.

4. The employee works independently with little need for additional supervision or help.

1 2 3 | 4 5 6 | 7 [✓ 8] 9

Mr Chauhan needs little or no additional supervision nor help after being given an assignment.

5. The employee inspires others to action; accomplishes goals by having a positive influence on the behavior of others.

1 2 3 | 4 5 6 | [✓ 7] 8 9

6. The employee understands and carries out oral or written instruction.

1 2 3 | 4 5 6 | [✓ 7] 8 9

7. The employee understands the behavior of fellow workers, superiors, and subordinates, can "stand in other person's shoes."

1 2 3 | 4 5 6 | [✓ 7] 8 9

8. The employee devises new solutions to problems; creates new methods and procedures for accomplishing objectives.

1 2 3 | 4 5 6 | [✓ 7] 8 9

9. The employee takes pride in doing good work and producing a first-rate product; strives to be best at whatever he/she does.

1 2 3 | 4 5 6 | 7 [✓ 8] 9

Mr Chauhan has strived to be the best in his area of assignment and produces a first rate product.

JOB PERFORMANCE APPRAISAL

Updt 7/11/83

INSTRUCTIONS FOR PARTS I AND II *Parts I and II comprise the Work Plan.*
The supervisor should encourage the employee to participate in the development of the Work Plan Job Performance Elements and Performance Standards. Elements must reflect the actual work to be performed during the appraisal period, and the performance standards must be written at a level which reflects satisfactory performance.

Job Performance Elements may be written using either the line entry method or the functional category method, but must be numbered consecutively in either case. The line entry method requires that an element be written as a one or two line phrase. The functional category method may be used when a number of subelements can be clustered under a functional heading such as: Administration, Communication, Directing, Planning, Maintaining, Repairing, Supplying, etc. If functional categories are used, the subelements may be written in narrative style or line entry format with further numbering of subelements under each functional category.

One or more Job Performance Elements must be identified as critical. A total of 100 Relative Importance Points must be distributed among all elements *(but not subelements)* with at least 51 points assigned to critical elements.

If applicable, managerial and supervisory work plans must reflect Job Performance Elements that indicate effort toward establishing work plans and meeting affirmative action goals, and achieving equal opportunity requirements. A supervisor's work plan should reflect responsibility for evaluating a subordinate's job performance in a fair and impartial manner.

When evaluating an employee's job performance, the following evaluation options will be used: (1) Employee DID NOT MEET the requirements of the standards; (2) Employee MET the requirements of the standards; or (3) Employee EXCEEDED the requirements of the standards.

INSTRUCTIONS FOR PART III
The rating process is primarily a supervisory function with the approval of the reviewing official. The supervisor must determine if the employee EXCEEDED, MET, or DID NOT MEET the requirements of the standards, and then check the appropriate column in Part I. The supervisor must then enter in Part III a brief comment concerning performance on each Job Performance Element in support of a "DID NOT MEET" or "EXCEEDED" evaluation. If all requirements are "MET" the comment, "Employee met all requirements" is sufficient.

All of the Job Performance Elements evaluations then determine the Overall Performance Rating to be assigned, as indicated in the Overall Performance Rating Scale shown below.

OVERALL PERFORMANCE RATING SCALE

SUPERIOR: Employee exceeds the performance requirements of all the job performance elements of the work plan.

EXCELLENT: Employee meets or exceeds the performance requirements of all the job performance elements of the work plan and exceeds the performance requirements of the job performance elements which represent at least 50% of the relative weight in importance of the work plan.

FULLY SUCCESSFUL: Employee meets the performance requirements of all the job performance elements of the work plan.

MINIMALLY ACCEPTABLE: Employee meets the performance requirements of all critical job performance elements of the work plan, but does not meet the performance requirements of one or more noncritical job performance elements.

UNACCEPTABLE: Employee does not meet the requirements of one or more critical job performance elements of the work plan.

EMPLOYEE IDENTIFICATION

NAME OF EMPLOYEE *(Last, First, Middle Initial)* CHAUHAN, OMPAL S.	SSAN 436-78-3513	GRADE GS-13	JOB SERIES 896
POSITION TITLE Industrial Engineer	ORGANIZATION HQ AFCMD		OFFICE SYMBOL PDP

REASON FOR APPRAISAL: ☒ ANNUAL ☐ OTHER *(Specify)*

PERIOD OF APPRAISAL: FROM 22 Aug 82 TO 22 Jun 83

DATE ELIGIBLE FOR NEXT WITHIN GRADE INCREASE:

NUMBER OF EMPLOYEES DIRECTLY SUPERVISED: NONE *(Check block)* ☒ CIVILIAN MILITARY

WORK PLAN AUTHENTICATION

THE JOB PERFORMANCE ELEMENTS AND PERFORMANCE STANDARDS DEVELOPED IN THIS WORK PLAN ARE A RESULT OF A JOB ANALYSIS USING ALL AVAILABLE SOURCE MATERIAL INCLUDING A THOROUGH REVIEW OF THE CURRENT POSITION DESCRIPTION AND ANY ORAL OR WRITTEN INPUT FROM THE EMPLOYEE.

SUPERVISOR *(Rating Official)*

NAME, GRADE, DUTY TITLE	SIGNATURE	DATE
ALAN A. FIELDING, GM-14 Chief, Manufacturing Assessment Div	Alan A. Fielding	8/27/82

REVIEWING OFFICIAL

NAME, GRADE, DUTY TITLE	SIGNATURE	DATE
JACK B. BRYAN, Colonel, USAF Director of Manufacturing Operations	Jack B. Bryan	9-14-82

EMPLOYEE

SIGNATURE - COPY RECEIVED *(Signature of employee does not indicate agreement or disagreement with the work plan.)*	DATE
Ompal S. Chauhan	9-14-82

AF FORM DEC 80 1282

PART I – WORK PLAN JOB PERFORMANCE ELEMENTS						
NUMBER EACH JOB PERFORMANCE ELEMENT AND SUBELEMENT CHECK CRITICAL OR NON-CRITICAL BOX FOR EACH ELEMENT. ENTER RELATIVE IMPORTANCE POINTS FOR EACH ELEMENT	CRITICAL	NON-CRITICAL	RELATIVE IMPORTANCE POINTS	EVALUATION		
				DID NOT MEET	MET	EXCEEDED
1. TECHNICAL ADVICE	X		60%			X
(1) Serves as authority and staff consultant on industrial management situations. (2) Reviews, interprets, and comments on higher HQ directives. (3) Attends upper level industry/DOD conferences as Directorate representative. (4) Reviews and evaluates performance of detachment assessment functions. (5) Acts as Division expert on matters concerning MIL-STD-1567.						
2. ADMINISTRATION		X	30%		X	
(1) Prepares Directorate and Command Section point papers. (2) Analyzes and prepares MIR data. (3) Reviews detachment manpower change requests. (4) Recommends ad hoc team members.						
3. MANAGERIAL	X		10%		X	
(1) Leads ad hoc manufacturing operations study teams. (2) Analyzes and recommends improvements in Directorate efficiency. (3) Conceives and develops programs for accomplishing Division functions.						

PART II – WORK PLAN PERFORMANCE STANDARDS

NUMBER EACH PERFORMANCE STANDARD TO CORRESPOND WITH THE JOB PERFORMANCE ELEMENTS AND SUBELEMENTS LISTED IN PART I.

1. (1) Furnishes adequate technical support at least 50% of the time without research being required. (2) Accomplishes review and comments with correct interpretation 85% of the time. (3) Represents Directorate with correct policy 85% of the time. (4) Accomplishes staff visits as scheduled 85% of the time, meeting the stated purpose 85% of the time. (5) Provides competent technical guidance to the detachments regarding MIL-STD-1567 in response to 85% of requests.

2. (1) Prepares point papers without significant technical/grammatical changes and within suspense date 85% of the time. (2) Analyzes and prepares MIR data inputs without requiring changes within suspense date 85% of the time. (3) Recommends manpower change responses that are acceptable 85% of the time. (4) Makes acceptable ad hoc team member recommendations 85% of the time.

3. (1) Completes team assignments and prepares an acceptable study report 85% of the time. (2) Makes recommendations without supervisory direction 85% of the time. (3) Conceives and develops at least one program each year to accomplish Division responsibilities.

PART III – PERFORMANCE SUBSTANTIATION AND OVERALL PERFORMANCE RATING

SUBSTANTIATION : *Comments are required on all Job Performance Elements. Refer to Job Performance Elements by number. A narrative description of the employee's performance on those elements checked "EXCEEDED" and "DID NOT MEET" in Part I is required to substantiate such evaluations. The comment, "Employee met all requirements" is sufficient when "MET" is checked for any Job Performance Element.*

1. Technical Advice:

(1) The employee furnishes adequate technical support at least 90% of the time and therefore greatly exceeds the 50% standard. (2) Reviews of higher headquarters' directives reflect the correct interpretation and result in constructive comments 90% of the time, exceeding the standard of 85%. (3) This employee has represented the Directorate at upper level industry/DOD conferences several times, during the rating period, in the much controversial area of Work Measurement/MIL-STD-1567. In every instance (100%), the correct Directorate policy has been represented, greatly exceeding the 85% standard. (4) Several staff visits have been made by the employee, during the rating period, with the stated purpose of assisting the AFPRO in conducting an analysis of the contractor's work measurement system. The visits were accomplished as scheduled 100% of the time and the stated purpose was met in excess of 90% of the time. This greatly exceeds the standard of 85%. (5) 100% of AFPRO requests for tech assistance in MIL-STD-1567 has been competently provided.

2. Administration: Mr Chauhan's performance met the requirements.

3. Managerial: Mr Chauhan's performance met the requirements.

6 JUL 1983

THE OVERALL PERFORMANCE RATING *(as described in the rating scale)* IS BASED UPON THE EMPLOYEE'S PERFORMANCE IN MEETING THE REQUIREMENTS OF THE JOB PERFORMANCE ELEMENTS.

☐ SUPERIOR ☒ EXCELLENT ☐ FULLY SUCCESSFUL ☐ MINIMALLY ACCEPTABLE ☐ UNACCEPTABLE

SUPERVISOR *(Rating Official)* SIGNATURE Alan A. Fielding	DATE 7/1/83
REVIEWING OFFICIAL SIGNATURE Jack B.	DATE 7-5-83
EMPLOYEE SIGNATURE - RECEIPT ACKNOWLEDGED *(Signature does not indicate employee agreement or disagreement)* S. Chauhan	DATE 7-5-83

★U.S.GPO:1980-0-340-979/282

UNITED STATES AIR FORCE
CIVILIAN POTENTIAL APPRAISAL

coded

CPA

PART I – PERSONAL DATA

EMPLOYEE *(Last Name, First, Middle Initial)* CHAUHAN, Ompal S.			PERIOD OF APPRAISAL FROM: 31 Mar 81 TO: 1 Apr 82
ORGANIZATION ASSIGNED TO *(Also enter office symbol)* HQ AFCMD/PDP Kirtland AFB, NM 87117			REASON FOR APPRAISAL *(Check one)* ☒ ANNUAL ☐ APPRAISAL CURRENT ☐ OTHER *(Specify)*
SSAN 436-78-3513	PAY PLAN AND JOB SERIES GS-896	GRADE 13	

PART II – OFFICIALS' EMPLOYEE'S SIGNATURES

REVIEWING OFFICIAL

DATE	NAME, GRADE, DUTY TITLE	SIGNATURE
6-14-82	JACK B. BRYAN, Colonel, USAF Director of Manufacturing Operations	Jack B. Bryan

RATING OFFICIAL *(Supervisor)*

DATE	NAME, GRADE, DUTY TITLE	SIGNATURE
6/14/82	ALAN A. FIELDING, Chief Manufacturing Assessment Division	Alan A. Fielding

ENDORSING OFFICIAL *(Optional)*

DATE	NAME, GRADE, DUTY TITLE	SIGNATURE

EMPLOYEE

DATE	SIGNATURE *(Does not indicate employee agreement or disagreement with the appraisal)*
6/15/82	Ompal S. Chauhan

PART III – RATING PURPOSE AND INSTRUCTIONS

PURPOSE: Part IV describes 19 behavioral dimensions. The ratings you assign to each of these dimensions will result in an overall employee ranking that will be used for competitive promotion, reassignment, change to lower grade, and/or selection for training. While ratings are based on observable behavior in the current position, an overall rating indicating employee potential will be derived based upon the requirements of the position to be filled. **INSTRUCTIONS.** (1) Based on your observations of the employee, rate EVERY behavioral dimension. Although employees should receive a wide range of ratings showing their particular strengths and weaknesses, most ratings should be in the CENTRAL RANGE. (2) Use the following scale in making the ratings. Circle the scale number in the appropriate box next to each dimension. A rating of 1, 2, 8, or 9 requires justification. Justification must be legible and limited to the bracketed space provided.

LOW RANGE	CENTRAL RANGE	HIGH RANGE
1. VERY POOR	4. Slightly below average	7. Above average
2. FAR BELOW AVERAGE	5. Average	8. FAR ABOVE AVERAGE
3. Below average	6. Slightly above average	9. OUTSTANDING

PART IV – BEHAVIORAL DIMENSIONS

1. The employee is energetic on the job; is willing to exert effort accomplishing tasks.
1 2 3 | 4 5 6 | [✓ 7] 8 9

2. The employee performs job-associated tasks well, whether they require physical, mechanical, technical, professional, or managerial skills; is considered very skillful on the job.
1 2 3 | 4 5 6 | [✓ 7] 8 9

3. The employee follows through well; accomplishes all tasks required to complete a job in a timely manner on his/her own.
1 2 3 | 4 5 6 | [✓ 7] 8 9

4. The employee works independently with little need for additional supervision or help.
1 2 3 | 4 5 6 | [✓ 7] 8 9

5. The employee inspires others to action; accomplishes goals by having a positive influence on the behavior of others.
1 2 3 | 4 5 [✓ 6] | 7 8 9

6. The employee understands and carries out oral or written instruction.
1 2 3 | 4 5 [✓ 6] | 7 8 9

7. The employee understands the behavior of fellow workers, superiors, and subordinates; can "stand in other persons shoes."
1 2 3 | 4 [✓ 5] 6 | 7 8 9

8. The employee devises new solutions to problems; creates new methods and procedures for accomplishing objectives.
1 2 3 | 4 5 [✓ 6] | 7 8 9

9. The employee takes pride in doing good work and producing a first-rate product; strives to be best at whatever he/she does.
1 2 3 | 4 5 6 | [✓ 7] 8 9

PART IV – BEHAVIORAL DIMENSIONS *(Continued)*

10. The employee picks up new ideas and procedures quickly; is easy to instruct; can adapt to the demands of new situations.
1 2 3 4 5 6 [✓ 7] 8 9

11. The employee explains, instructs, and converses with others in a clear and effective manner.
1 2 3 4 5 [✓ 6] 7 8 9

12. The employee prepares written materials that are effective and easily understood.
1 2 3 4 5 6 [✓ 7] 8 9

13. The employee's overall job performance in his/her present job.
1 2 3 4 5 6 [✓ 7] 8 9

14. The employee's ability to direct and train others, oversee and document work activities, select and evaluate personnel, implement management directives, or substitute for absent supervisor.
1 2 3 4 5 [✓ 6] 7 8 9

15. The employee's ability to implement Air Force directives and regulations; plan, organize and monitor work projects; or represent the unit through demonstrations or briefings.
1 2 3 4 5 [✓ 6] 7 8 9

ADDITIONAL INSTRUCTIONS: Using the scale given, circle the appropriate rating on each statement below.

16. Compared to other individuals doing about the same type of work, does the employee complete his/her work (projects, duties and tasks) faster?

1 FAR SLOWER
2 VERY MUCH SLOWER
3 Slower
4 Slightly slower
5 The same speed
6 Slightly faster
[✓ 7] Faster
8 VERY MUCH FASTER
9 FAR FASTER

17. Compared to other individuals doing about the same type of work, how is the employee's work productivity during his/her work time?

1 THE LEAST PRODUCTIVE
2 MUCH LESS PRODUCTIVE
3 Less productive
4 Slightly less productive
5 The same productivity
6 Slightly more productive
[✓ 7] More productive
8 MUCH MORE PRODUCTIVE
9 THE MOST PRODUCTIVE

18. Compared to other individuals doing about the same type of work, does the employee spend a greater percentage of time on the job working, as opposed to socializing, sitting idle, involved in personal affairs, taking breaks, etc.?

1 THE LEAST TIME WORKING
2 MUCH LESS TIME WORKING
3 Less time working
4 Slightly less time working
5 The same time working
[✓ 6] Slightly more time working
7 More time working
8 MUCH MORE TIME WORKING
9 THE MOST TIME WORKING

19. Compared to other individuals doing about the same type of work, does the employee show more initiative in starting, carrying out and completing projects?

1 THE LEAST INITIATIVE
2 FAR LESS INITIATIVE
3 Less initiative
4 Slightly less initiative
5 The same initiative
6 Slightly more initiative
[✓ 7] More initiative
8 MUCH MORE INITIATIVE
9 THE MOST INITIATIVE

JOB PERFORMANCE APPRAISAL

Coded 9-7-82

INSTRUCTIONS FOR PARTS I AND II *(Parts I and II comprise the Work Plan)*

The supervisor should encourage the employee to participate in the development of the Work Plan Job Performance Elements and Performance Standards. Elements must reflect the actual work to be performed during the appraisal period, and the performance standards must be written at a level which reflects satisfactory performance.

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One or more Job Performance Elements must be identified as critical. A total of 100 Relative Importance Points must be distributed among all elements *(but not subelements)* with at least 51 points assigned to critical elements.

If applicable, managerial and supervisory work plans must reflect Job Performance Elements that indicate effort toward establishing work plans and meeting affirmative action goals, and achieving equal opportunity requirements. A supervisor's work plan should reflect responsibility for evaluating a subordinate's job performance in a fair and impartial manner.

When evaluating an employee's job performance, the following evaluation options will be used: (1) Employee DID NOT MEET the requirements of the standards; (2) Employee MET the requirements of the standards; or (3) Employee EXCEEDED the requirements of the standards.

INSTRUCTIONS FOR PART III

The rating process is primarily a supervisory function with the approval of the reviewing official. The supervisor must determine if the employee EXCEEDED, MET, or DID NOT MEET the requirements of the standards, and then check the appropriate column in Part I. The supervisor must then enter in Part III a brief comment concerning performance on each Job Performance Element in support of a "DID NOT MEET" or "EXCEEDED" evaluation. If all requirements are "MET" the comment, "Employee met all requirements" is sufficient.

All of the Job Performance Elements evaluations then determine the Overall Performance Rating to be assigned, as indicated in the Overall Performance Rating Scale shown below.

OVERALL PERFORMANCE RATING SCALE

SUPERIOR: Employee exceeds the performance requirements of all the job performance elements of the work plan.

EXCELLENT: Employee meets or exceeds the performance requirements of all the job performance elements of the work plan and exceeds the performance requirements of the job performance elements which represent at least 50% of the relative weight in importance of the work plan.

FULLY SUCCESSFUL: Employee meets the performance requirements of all the job performance elements of the work plan.

MINIMALLY ACCEPTABLE: Employee meets the performance requirements of all critical job performance elements of the work plan, but does not meet the performance requirements of one or more noncritical job performance elements.

UNACCEPTABLE: Employee does not meet the requirements of one or more critical job performance elements of the work plan.

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EMPLOYEE IDENTIFICATION

NAME OF EMPLOYEE *(Last, First, Middle Initial)* Chauhan, Ompal S.	[illegible] 436-78-3513	GRADE GS-13	JOB SERIES 896
POSITION TITLE Industrial Engineer	ORGANIZATION HQ AFCMD		OFFICE SYMBOL PDP
REASON FOR APPRAISAL ☒ ANNUAL ☐ OTHER *(Specify)*	PERIOD OF APPRAISAL FROM 1 Oct 81		TO 21 Aug 82
DATE ELIGIBLE FOR NEXT WITHIN GRADE INCREASE [illegible]	NUMBER OF EMPLOYEES DIRECTLY SUPERVISED NONE *(Check block)* ☒	CIVILIAN	MILITARY

WORK PLAN AUTHENTICATION

THE JOB PERFORMANCE ELEMENTS AND PERFORMANCE STANDARDS DEVELOPED IN THIS WORK PLAN ARE A RESULT OF A JOB ANALYSIS USING ALL AVAILABLE SOURCE MATERIAL INCLUDING A THOROUGH REVIEW OF THE CURRENT POSITION DESCRIPTION AND ANY ORAL OR WRITTEN INPUT FROM THE EMPLOYEE.

SUPERVISOR *(Rating Official)*

NAME, GRADE, DUTY TITLE ALAN A. FIELDING, GS-14 Chief, Manufacturing Assessment Div	SIGNATURE Alan A. Fielding	DATE 9/18/81

REVIEWING OFFICIAL

NAME, GRADE, DUTY TITLE JACK B. BRYAN, Colonel, USAF Director, Mufacturing Operations	SIGNATURE Jack B. Bryan	DATE 10/1/81

EMPLOYEE

SIGNATURE - COPY RECEIVED *(Signature of employee does not indicate agreement or disagreement with the work plan.)* Ompal S. Chauhan	DATE 10-27-81

PART I – WORK PLAN JOB PERFORMANCE ELEMENTS

NUMBER EACH JOB PERFORMANCE ELEMENT AND SUBELEMENT. CHECK CRITICAL OR NON-CRITICAL BOX FOR EACH ELEMENT. ENTER RELATIVE IMPORTANCE POINTS FOR EACH ELEMENT.	CRITICAL	NON-CRITICAL	RELATIVE IMPORTANCE POINTS	EVALUATION: DID NOT MEET	EVALUATION: MET	EVALUATION: EXCEEDED
1. Technical Advice	X		60%			X
(1) Serves as authority and staff consultant on industrial management situations. (2) Reviews, interprets, and comments on higher HQ directives. (3) Attends upper level industry/DOD conferences as Directorate representative. (4) Reviews and evaluates performance of detachment assessment functions. (5) Acts as Division expert on matters concerning MIL-STD-1567.						
2. Administration		X	30%		X	
(1) Prepares Directorate and Command Section point papers. (2) Analyzes and prepares MIR data. (3) Reviews detachment manpower change requests. (4) Recommends ad hoc team members.						
3. Managerial	X		10%		X	
(1) Leads ad hoc manufacturing operations study teams. (2) Analyzes and recommends improvements in Directorate efficiency. (3) Conceives and develops programs for accomplishing Division functions.						

PART II – WORK PLAN PERFORMANCE STANDARDS

NUMBER EACH PERFORMANCE STANDARD TO CORRESPOND WITH THE JOB PERFORMANCE ELEMENTS AND SUBELEMENTS LISTED IN PART I.

1. (1) Furnishes adequate technical support at least 50% of the time without research being required. (2) Accomplishes review and comments with correct interpretation 85% of the time. (3) Represents Directorate with correct policy 85% of the time. (4) Accomplishes staff visits as scheduled 85% of the time, meeting the stated purpose 85% of the time. (5) Provides competent technical guidance to the detachments regarding MIL-STD-1567 in response to 85% of requests.

2. (1) Prepares point papers without significant technical/grammatical changes and within suspense date 85% of the time. (2) Analyzes and prepares MIR data inputs without requiring changes within suspense date 85% of the time. (3) Recommends manpower change responses that are acceptable 85% of the time. (4) Makes acceptable ad hoc team member recommendations 85% of the time.

3. (1) Completes team assignments and prepares an acceptable study report 85% of the time. (2) Makes recommendations without supervisory direction 85% of the time. (3) Conceives and develops at least one program each year to accomplish Division responsibilities.

PART III – PERFORMANCE SUBSTANTIATION AND OVERALL PERFORMANCE RATING

SUBSTANTIATION: *Comments are required on all Job Performance Elements. Refer to Job Performance Elements by number. A narrative description of the employee's performance on those elements checked "EXCEEDED" and "DID NOT MEET" in Part I is required to substantiate such evaluations. The comment, "Employee met all requirements" is sufficient when "MET" is checked for any Job Performance Element.*

1. Technical Advice:

(1) The employee furnishes adequate technical support at least 90% of the time and therefore greatly exceeds the 50% standard.

(2) Reviews of higher headquarters' directives reflect the correct interpretation and result in constructive comments 90% of the time exceeding the standard of 85%.

(3) This employee has represented the Directorate at upper level industry/DoD conferences several times, during the rating period, in the much controversial area of Work Measurement/MIL-STD-1567. In every instance (100%) the correct Directorate policy has been represented, greatly exceeding the 85% standard

(4) Several staff visits have been made by the employee, during the rating period, with the stated purpose of assisting the AFPRO in conducting an analysis of the contractor's work measurement system. The visits were accomplished as scheduled 100% of the time and the stated purpose was met in excess of 90% of the time. This greatly exceeds the standard of 85%.

(5) 100% of AFPRO requests for tech assistance in MIL-STD-1567 has been competently provided.

THE OVERALL PERFORMANCE RATING *(as described in the rating scale)* IS BASED UPON THE EMPLOYEE'S PERFORMANCE IN MEETING THE REQUIREMENTS OF THE JOB PERFORMANCE ELEMENTS.

☐ SUPERIOR ☒ EXCELLENT ☐ FULLY SUCCESSFUL ☐ MINIMALLY ACCEPTABLE ☐ UNACCEPTABLE

SUPERVISOR *(Rating Official)* SIGNATURE Alan A. Fielding	DATE 8/12/82
REVIEWING OFFICIAL SIGNATURE	DATE 8/17/82
EMPLOYEE SIGNATURE - RECEIPT ACKNOWLEDGED *(Signature does not indicate employee agreement or disagreement)* Dinpal S. Chauhan	DATE 8-17-82

HOW MUCH SUPERVISION WOULD I HAVE TO GIVE THIS EMPLOYEE IF I ASSIGNED HIM A TASK REQUIRING:

27. TRAINING SUBORDINATES.	D	C B A E F G	[✓ N]	52
28. COOPERATING WITH OTHERS OUTSIDE OF THE IMMEDIATE OFFICE.	D	C B [✓ A] E F G	N	53

DATES	SIGNATURE OF SUPERVISORS
6 Mar 81	REVIEWING R. R. Smith
12 Mar 81	IMMEDIATE Bennie A. Miller, Jr.

THIS APPRAISAL, COMPLETED BY MY SUPERVISOR, WAS SHOWN TO ME AND ITS CONTENTS DISCUSSED WITH ME.

DATE 3-12-81

SIGNATURE OF EMPLOYEE Dinpal S. Chauhan

FIRST CARD

			EMPLOYEE SSAN									DS				R	T/C		SON				EMPLOYEE DOB												DATE OF DISCUSSION								
																							YEAR		MONTH		DAY								YEAR		MONTH		DAY				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44
J			4	3	6	7	8	3	5	1	3		E	6	6																				8	1	0	3	1	2	6	5	X

SECOND CARD

DUPLICATE FROM FIRST CARD																R	T/C								
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26-53 FOR APPRAISAL DATA: 54-80 BLANK
														3	1						A	6	5	X	

THIRD CARD

DUPLICATE			IMMEDIATE SUPVR SSAN MIL - 1; CIV - 2:										REVIEWING SUPVR SSAN MIL - 1; CIV - 2:										(See Footnotes) A		B		C		DATE OF DISCUSSION YEAR		MONTH		DAY		EMPLOYEE POSITION CL	SERIES					GRADE	
1	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62
→		8																																								

A = Number of employees supervised by the Immediate Supervisor.
B = As defined by this appraisal, number of hours per week spent by Immediate Supervisor in direct supervision.
C = Number of hours per week spent in direct supervision of employee indicated on this form.

AF FORM 2403

PAGE 4 OF 4 PAGES
GPO 883-616

HOW MUCH SUPERVISION WOULD I HAVE TO GIVE THIS EMPLOYEE IF I ASSIGNED HIM A TASK REQUIRING:

13. WILLINGNESS TO TRY NEW IDEAS AND ADJUST TO CHANGING REQUIREMENTS AND CONDITIONS.	D	C	B	[✓ A]	E	F	G	N	38
14. REVIEWING RESEARCH PLANS AND REPORTS PREPARED BY OTHER PROFESSIONALS.	D	C	B	[✓ A]	E	F	G	N	39
15. SELLING IDEAS AND RESEARCH FINDINGS TO MANAGEMENT AND CONTRACTORS.	D	C	B	[✓ A]	E	F	G	N	40
16. PLANNING FOR AND SOLVING PROBLEMS OF FACILITIES, BUDGET AND PERSONNEL.	D	C	[✓ B]	A	E	F	G	N	41
17. KEEPING SUPERIORS AND SUBORDINATES INFORMED.	D	C	B	[✓ A]	E	F	G	N	42
18. PLANNING AND ACCEPTING WORK PRIORITIES.	D	C	B	[✓ A]	E	F	G	N	43
19. SUPERVISING THE INDIVIDUAL EMPLOYEE AND PROVIDING A POSITIVE EQUAL EMPLOYMENT OPPORTUNITY ENVIRONMENT.	D	C	B	A	E	F	G	[✓ N]	44
20. ASSESSING EMPLOYEE PERFORMANCE AND PROVIDING APPROPRIATE GUIDELINES FOR WORK ACCOMPLISHMENT.	D	C	B	A	E	F	G	[✓ N]	45
21. PERSISTENCE AND CONTINUED DRIVE.	D	C	B	[✓ A]	E	F	G	N	46
22. REFLECTING ORGANIZATION POLICY AND DESIRED IMAGE.	D	C	[✓ B]	A	E	F	G	N	47
3. APPLYING KNOWLEDGE OF ORGANIZATIONAL ENVIRONMENT.	D	C	B	[✓ A]	E	F	G	N	48
24. COMPLYING WITH REGULATIONS, DIRECTIVES AND INSTRUCTIONS FROM SUPERIORS.	D	C	B	[✓ A]	E	F	G	N	49
25. CREATING AND MAINTAINING GOOD INTERPERSONAL RELATIONSHIPS.	D	C	B	[✓ A]	E	F	G	N	50
26. UTILIZING SUBORDINATES TO MAXIMIZE PRODUCTIVITY.	D	C	B	A	E	F	G	[✓ N]	51

SUPERVISORY APPRAISAL OF EMPLOYEE CURRENT PERFORMANCE
SCIENTIST AND ENGINEER

(See Reverse For Instructions)

LAST NAME-FIRST NAME-MIDDLE INITIAL Chauhan, Ompal S.	POSITION General Engineer	ORGANIZATION AFCMC Det 21/PDE	DUE DATE OF THIS APPRAISAL 1 Mar 81
TYPED NAME AND TITLE OF IMMEDIATE SUPERVISOR Bennie A.Miller,Jr.,Maj, Ch Engr Br	TYPED NAME AND TITLE OF REVIEWING SUPERVISOR R.R.McKee, Chief Manufacturing Div	PERIOD OF SUPERVISION FROM 1 Mar 80	TO 28 Feb 81

HOW MUCH SUPERVISION WOULD I HAVE TO GIVE THIS EMPLOYEE IF I ASSIGNED HIM A TASK REQUIRING:

1. COLLECTING BACKGROUND INFORMATION BEFORE AND DURING PERFORMANCE OF RESEARCH.	D	C [✓ B] A	N	26
2. DESIGNING A RESEARCH STUDY.	D	E F G C B A	[✓ N]	27
3. ANALYZING DATA.	D	E F G C B [✓ A]	N	28
4. INTERPRETING AND EVALUATING RESEARCH FINDINGS.	D	E F G C B [✓ A]	N	29
5. WRITING RESEARCH REPORTS.	D	E F G C [✓ B] A	N	30
6. USING BASIC TECHNICAL/PROFESSIONAL SKILLS AND KNOWLEDGE.	D	E F G C B [✓ A]	N	31
7. ACTIVELY SEARCHING FOR AND STAYING ABREAST OF NEW TECHNICAL/PROFESSIONAL DEVELOPMENTS.	D	E F G C B [✓ A]	N	32
8. CREATIVELY APPLYING RESEARCH FINDINGS TO THE DEVELOPMENT OF NEW METHODS, MATERIALS, OR EQUIPMENT.	D	E F G C B [✓ A]	N	33
9. COMPLIANCE WITH SCHEDULES AND DEADLINES.	D	E F G C [✓ B] A	N	34
10. FORMULATING NEW RESEARCH PROPOSALS.	D	E F G C B A	[✓ N]	35
11. WORKING UNDER STRESS OR OTHER ADVERSE CONDITIONS.	D	E F G C B [✓ A]	N	36
12. PREPARING AND PRESENTING MATERIALS ORALLY.	D	E F G C B [✓ A]	N	37

SUPERVISORY EVALUATION OF EMPLOYEE POTENTIAL FOR FIRST-LEVEL SUPERVISORY POSITIONS

(See Reverse for Instructions)

DUE DATE OF THIS EVALUATION: 1 Mar 81

LAST NAME-FIRST NAME-MIDDLE INITIAL: Chauhan, Ompal S.

POSITION: General Engineer

ORGANIZATION: AFCMC Det 21/PDE

TYPED NAME AND TITLE OF IMMEDIATE SUPERVISOR: Bennie A. Miller, Jr., Maj, Ch Engr Br

TYPED NAME AND TITLE OF REVIEWING SUPERVISOR: R.R. McKee, Chief Manufacturing Div

PERIOD OF SUPERVISION: FROM 1 Mar 80 TO 28 Feb 81

	POTENTIAL FOR PERFORMANCE AT THE SUPERVISORY LEVEL						FREQUENCY OF PERFORMANCE IN CURRENT POSITION			
	OUT-STANDING	ABOVE AVG	AVG	BELOW AVG	MAR-GINAL		FREQ	SOME-TIMES	INFREQ	NEVER
1. MAKING APPROPRIATE DECISIONS UNDER STRESSFUL CONDITIONS.	[✓ A]	B	C	D	E	(26-27)	[✓ F]	G	H	I
2. SUPPORTING ORGANIZATIONAL POLICY AND REFLECTING DESIRED IMAGE.	A	[✓ B]	C	D	E	(28-29)	[✓ F]	G	H	I
3. ACCEPTING RESPONSIBILITY.	[✓ A]	B	C	D	E	(30-31)	[✓ F]	G	H	I
4. DELEGATING AUTHORITY AND ACCEPTING CONSEQUENCES.	A	B	[✓ C]	D	E	(32-33)	F	G	[✓ H]	I
5. MOTIVATING OTHERS THROUGH LEADERSHIP CAPACITY.	A	[✓ B]	C	D	E	(34-35)	F	[✓ G]	H	I
6. UPHOLDING THE PRINCIPLES OF SOCIAL ACTION PROGRAMS SUCH AS EEO AND UPWARD MOBILITY	[✓ A]	B	C	D	E	(36-37)	[✓ F]	G	H	I

DATES	SIGNATURES OF SUPERVISORS
6 Mar 81	REVIEWING: RR McKee
12 Mar 81	IMMEDIATE: Bennie A. Miller, Jr.

This evaluation, completed by my supervisor, was shown to me and its contents discussed with me.

DATE: 3-12-81

SIGNATURE OF EMPLOYEE, IF REQUIRED: Ompal S. Chauhan

FIRST CARD

			EMPLOYEE SSAN									DS				R	T/C		SON				EMPLOYEE DOB YEAR		MONTH		DAY								DATE OF DISCUSSION YEAR		MONTH		DAY				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44
J			4	3	6	7	8	3	5	1	3		5	0	5																				8	1	0	3	1	2	0	1	V

SECOND CARD

DUPLICATE FROM FIRST CARD																R	T/C								
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26-37 FOR APPRAISAL DATA; 38-80 BLANK
														3	1						A	0	1	V	

THIRD CARD

DUPLICATE				IMMEDIATE SUPVR SSAN MIL - 1; CIV - 2									REVIEWING SUPVR SSAN MIL - 1; CIV - 2														DATE OF DISCUSSION YEAR		MONTH		DAY		EMPLOYEE POSITION CL	SERIES					GRADE	
1		21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62
	→		8																																								

AF FORM MAY 78 2455

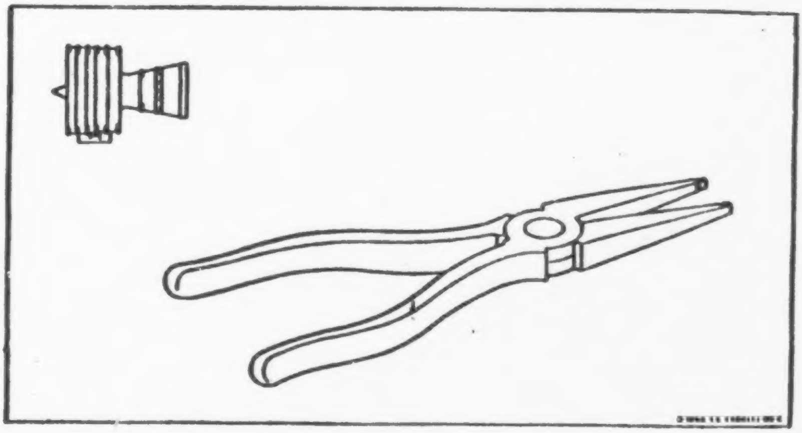
Examples of Overpricing in Pass Through Items

P/N	NSN $	BMAC $	CMFI $	NSN
856A3011P01	$ 161.15	$ 689	$198	Plug Puller
856A1006G01	303.00	1,002	304	Wrench
856A1090G01	318.00	835	157	Installer
856A3260G01		1,053	349	Plug
856A3108P01	224.00	1,109	398	Pin Guide
856A1199G01	943.00	649	162	Restrainer
856A1053P01	271.00	847	168	Fixture
856A1013P01	351.00	901	205	Holder
856A1038G01	431.00	915	218	Fix Install
856A1163P01	1,566.00	478	213	Cover
856A3274P01	148.00	925	226	Pusher, Oil
856A3408G01	1,528.00	1,209	476	Gauge for Yoke
856A3409G01	643.20	990	284	Pin Guide
		$11,602	$3,358	

3.45 or BMAC Prices are 345% Higher.

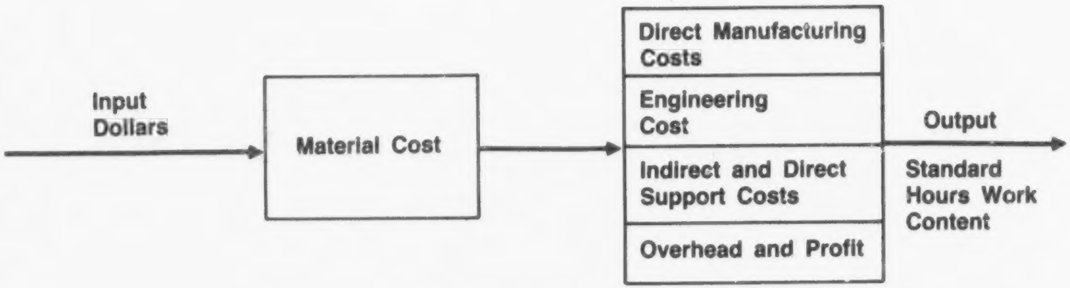
Another item for which BMAC charged $748.00, we bought it from the local hardware store for $7.67 BMAC has purchased this part from CFMI for $80.00.

PLIERS



BOEING PRICE =	$748.00
LOCAL HARDWARE STORE PRICE =	7.67
PRICE OVERCHARGE	$740.33

Cost of Labor per Standard Hours



Input Dollars

Material Cost

Direct Manufacturing Costs

Engineering Cost

Indirect and Direct Support Costs

Overhead and Profit

Output

Standard Hours Work Content

Cost of labor/per standard hours work content

$$\frac{\text{Input dollars} - \text{cost of material}}{\text{Standard hours work content}}$$

EXHIBIT 1

IG840430-1 A

ALL MATERIAL MUST FALL WITHIN GRID AND CROP LINES

Program X, Y, Z

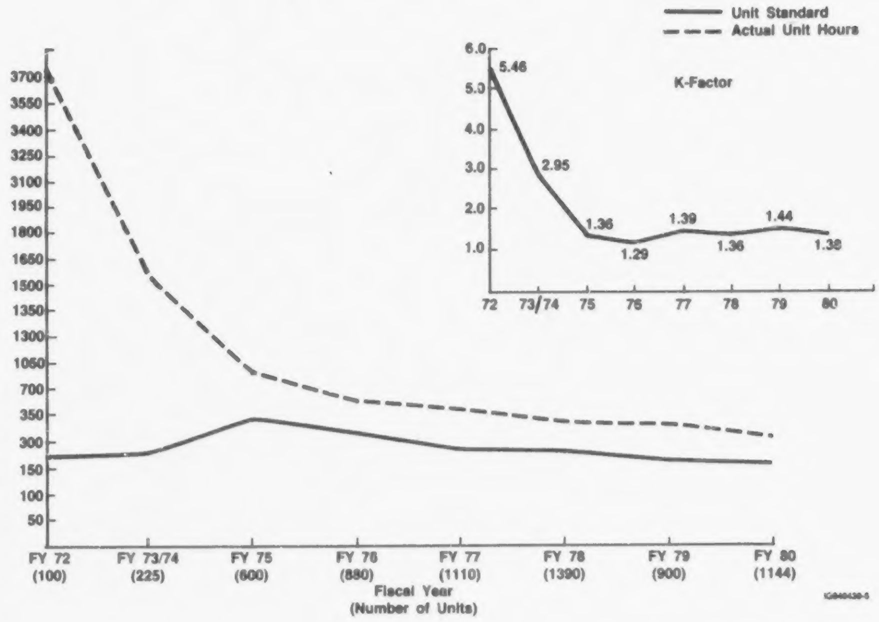


Exhibit 2

Program XYZ
Unit Standard, FAIT Labor Hours and Engineering Hours

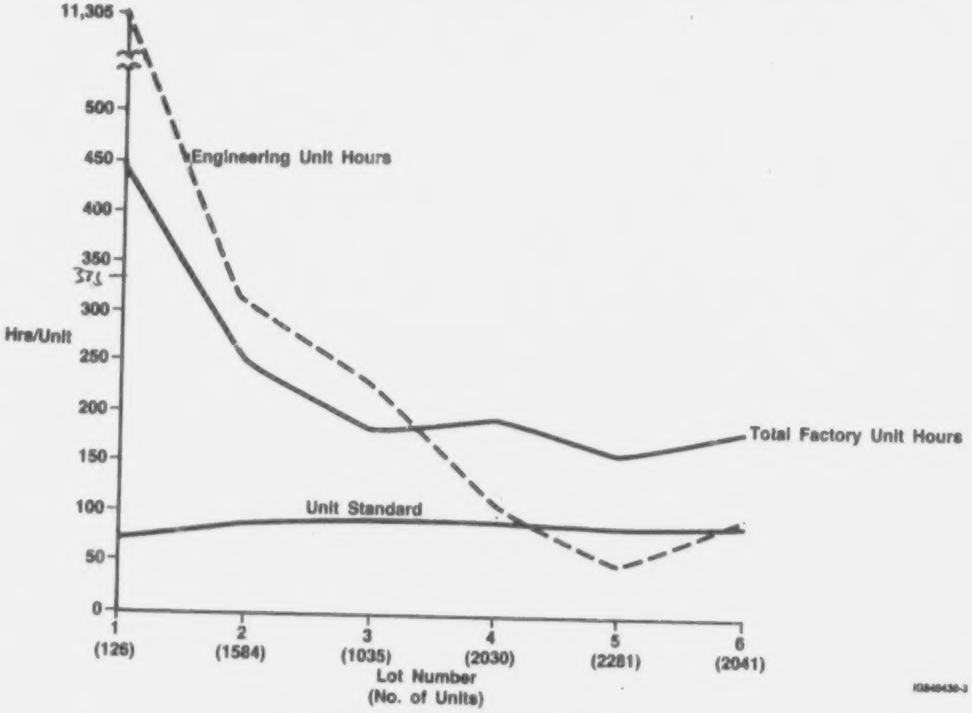
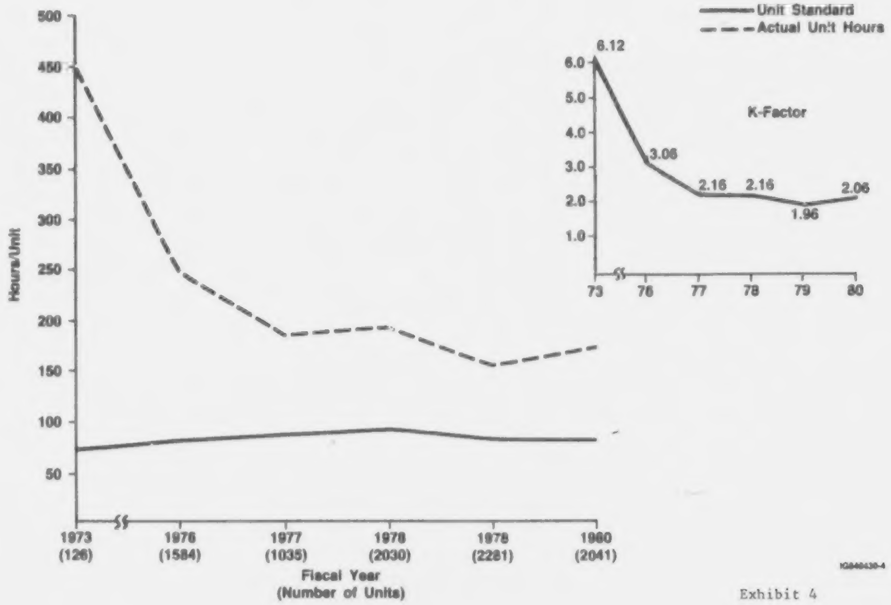


Exhibit 3

ALL MATERIAL MUST FALL WITHIN GRID AND CROP LINES

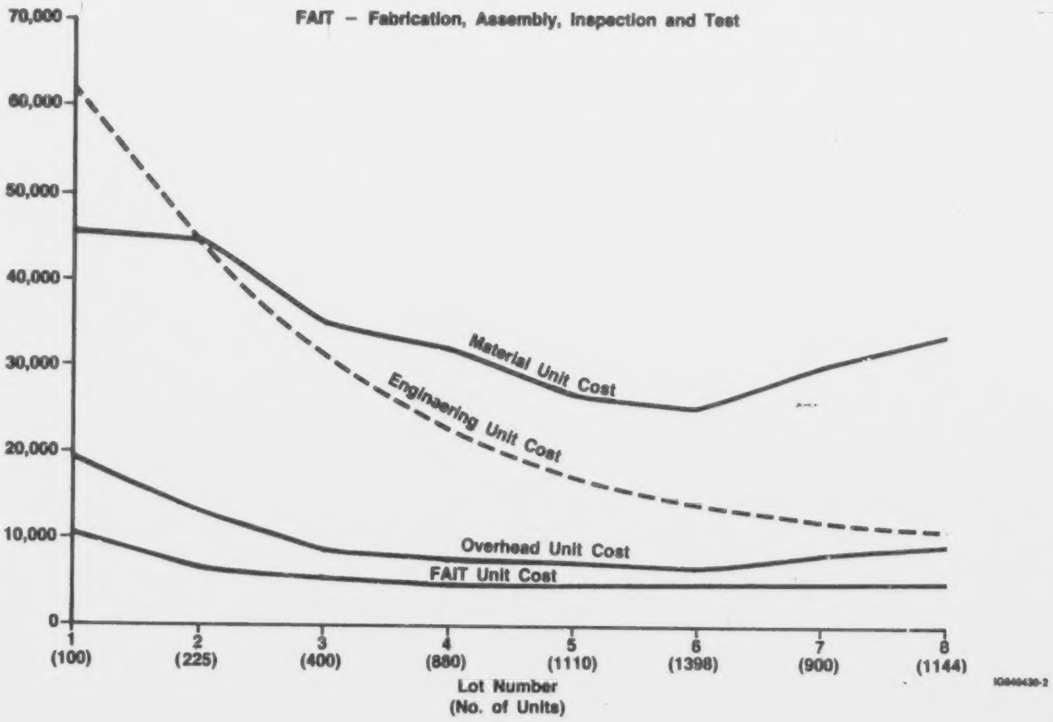
Program X, Y, Z



IG840430-4

Exhibit 4

Program XYZ
Unit Costs



FAIT – Fabrication, Assembly, Inspection and Test

Exhibit 5

FPI Contract F33657-78-C-0468
IIR Maverick Program

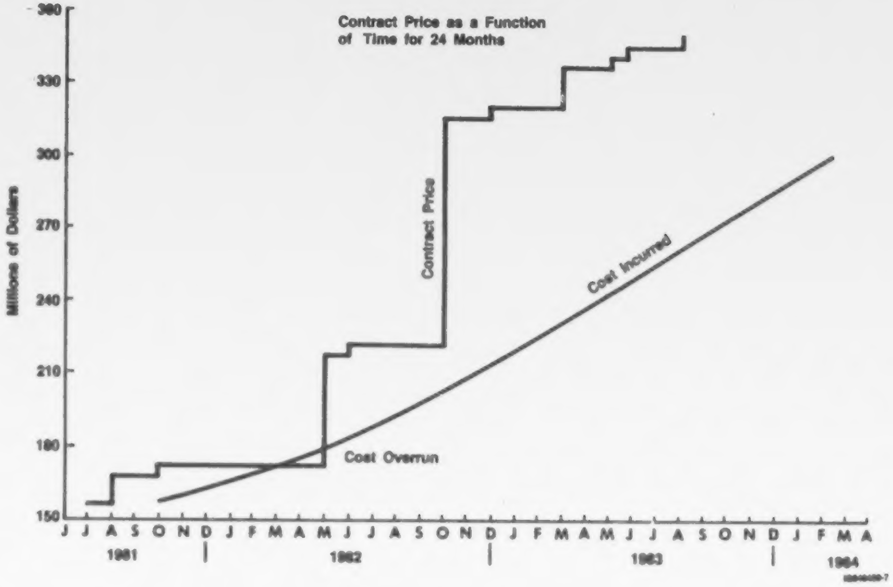


Exhibit 6

Contract F33657-82-C-2068
KC-135 Re-engine Production

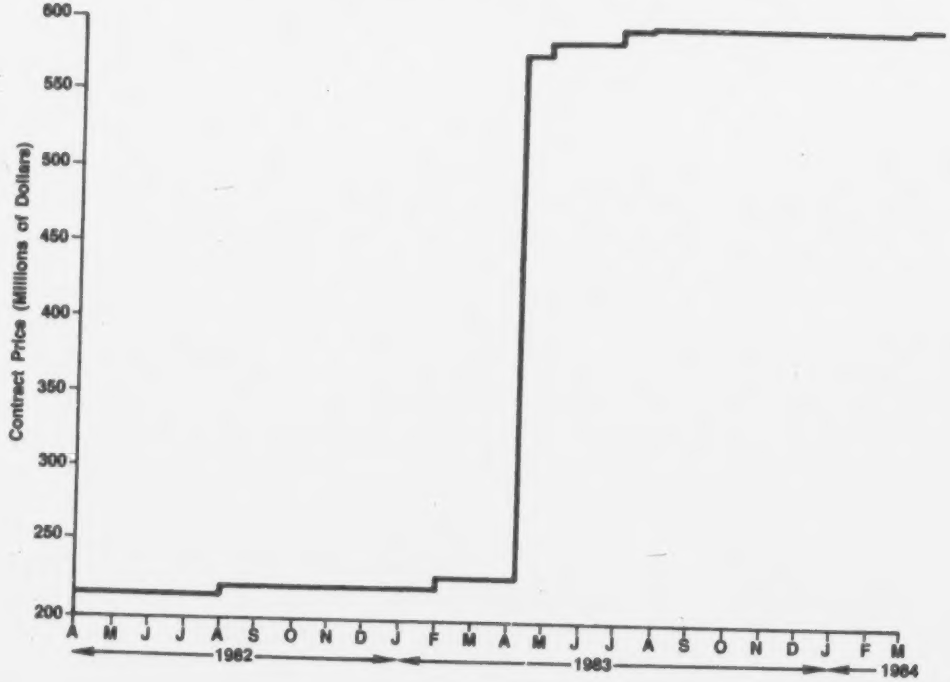


Exhibit 7

Contract F33657-79-C-0416
OAS/CMI

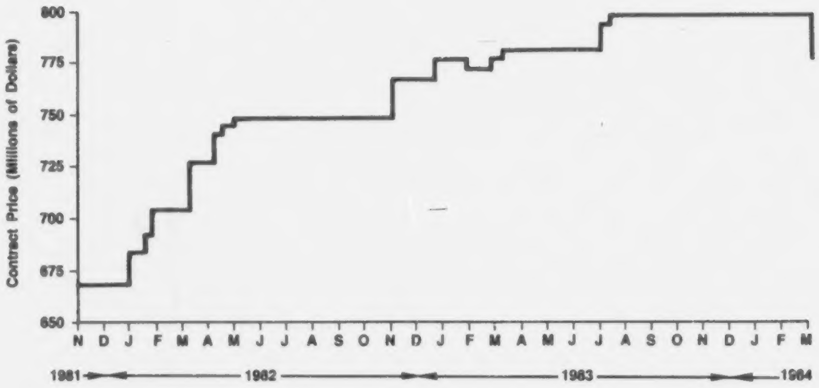


Exhibit 8

Contract F33657-79-C-0439
KC-135 Re-engine Unit No. 1

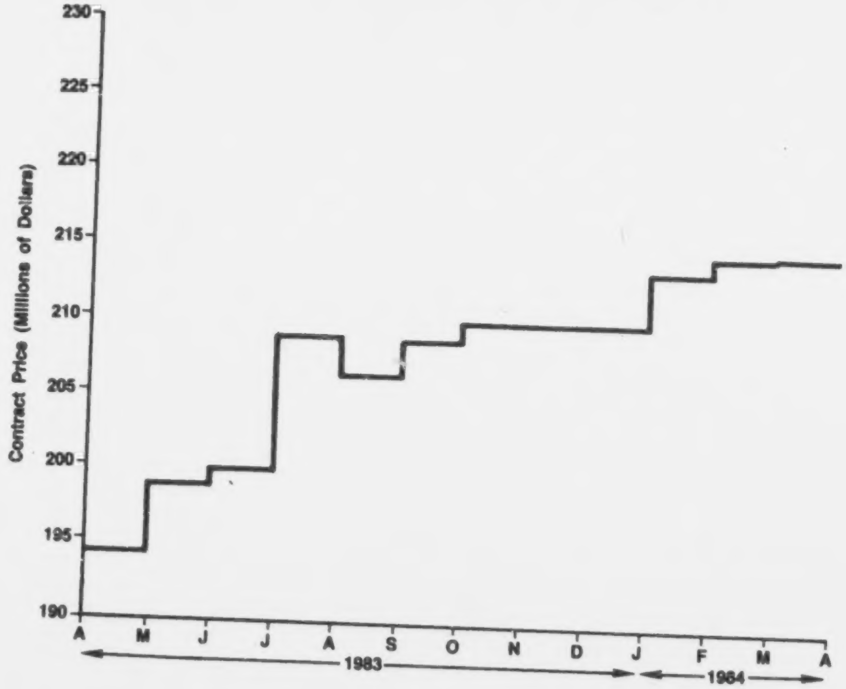


Exhibit 9

FDP (dk, 17 Apr 84)

Cost Accounting Inaccuracies

To

1. This is in reference to your letter of 20 Mar 84.

2. On 13 Mar 81Boeing Company was informed by Mr. Eugene Miller, Chief of Contracts, Det 21, that prior to using JCH or JCS computer runs for price support, a validation or verification of these two systems is required. Prior to this, Det 21 had several meetings with Boeing officials, Mr. W.P.C. Simmons, Mr. Ron Wirth, Mr. Ira Isley and Mr. Jeff Dunagan in reference to validity of F.M.C. runs. As a result of these meetings, F.M.C. runs were to be discontinued and replaced with J.C.H. and J.C.S. runs. However, from your memo it is apparent that in spite of the written request, these runs were introduced and used without any validation.

3. Errors in these programs have existed since 13 March 81 and therefore we conclude that mispricing has occurred since 13 Mar 81 or earlier. We are attaching pertinent copies of letters for your reference.

4. Please keep us advised of BMAC's responses, since we were involved with BMAC in 1981. We will be able to assist you in determining the accuracies of their responses and will assist you in validation of new programs by BMAC.

ORIGINAL SIGNED BY

OMPAL S. CHAUHAN
Chief, Manufacturing
Assessment Branch

4 Atch.
1. Memo dated 9 Jan 81
2. Memo dated 23 Jan 81
3. Memo dated 9 Feb 81
4. Memo dated 13 Mar 81

Jan, 84

[illegible]tion of JCH and FMC Runs

1. [illegible]: Contractor uses these runs to justify his "did cost." We have to know the validity of these runs before accepting the output for cost justification.

2. Proposed Method of Validation:

a. This should be joint exercise between DCAA, Pricing and Manufacturing Operations. Each division should assign one individual to provide support for this exercise.

(1.) DCAA - Should provide accuracy of charged times. Manufacturing should verify accuracy of parts closed and in production. Pricing should verify any dollar factor added to this effort.

(2) We should set up a time frame of 30 days to finish our final report.

(3) If discrepancies are found, we should undertake validation of other programs.

(4) These are some preliminary ideas. We are open to all suggestions, ideas and comments on this subject.

BOEING

BOEING MILITARY AIRPLANE COMPANY
A Division of The Boeing Company
Wichita, Kansas 67210 • Seattle, Washington 98124

5/29

May 24, 1984
3-1100-24

AFPRO
Det 34 (TM)
BMAC - Wichita

Attention: Jim Reynolds

SUBJECT: ACCESS TO COMPUTERIZED GOVERNMENT PROGRAM RELATED INFORMATION

Reference Air Force letter (TM) dated 16 May 1984, same subject

In response to the reference, BMAC respectfully declines your request for access to computer information. In order to maintain a secured computing system, access to Boeing owned or operated computer systems is limited to applicable Boeing personnel only. Of course, where any of the information you requested is a specific contract requirement, (CDRL, Statement of Work) we will coordinate with your office and the buying agencies to provide you this information to fulfill a contractual requirement.

In addition, BMAC will continue to support your organization, as in the past, with respect to DOD Cost and Pricing Data Provisions and Truth and Negotiations.

R. A. Cox
Director of Contracts

BOEING … ANE COMPANY
A Division of The Boeing Company Wichita, Kansas 67210

January 23, 1981
3-9230-1-2

TO: L. Eugene Miller
Principal Administrative Contracting Officer
Detachment 21

SUBJECT: FINANCIAL MANAGEMENT COSTS (FMC) SYSTEM

REFERENCE: Letter-Miller to BMAC-dated January 9, 1981-same subject

As you requested, Ron Wirths has been assigned as the BMAC focal point to assist your personnel in the verification of the FMC program. His extension is 6-7371, and he is available for this activity.

William P.C. Simmons

W.P.C. Simmons
Assistant Controller
BMAC

TM 9 January 1981

Financial Management Costs (FMC) System Basic Program Run

Boeing Military Airplane Company
(A Division of The Boeing Company)
Wichita, Kansas 67210

1. BMAC uses FMC data to support price proposals. Data content, data processing routines and accuracy of this program have never been verified by this detachment.

2. You are requested to provide a listing of FMC basic program and a BMAC focal point who will assist Det 21 personnel in this verification.

Original signed by

L. EUGENE MILLER
Principal Administrative
Contracting Officer

FDP , 1em, 20 Dec 83 20 Dec 83

P/N 675-12930-601 Reasonableness of Price Data and Manufacturing Hours

TMP
DCAA
IN TURN

1. We have completed a review of the manufacturing hours and other pricing related data. Our findings and recommendations are as follows.

2. Engineering on this part was completed on 9-10-1980 and production control Part Card Ledger was opened at that time. Therefore, we assume that the first production run of these parts was completed in 1980.

3. Five pages of the parts ledger are missing; therefore, we are unable to determine how many of these parts were produced up to that time, but on 12 Nov 1981 we show a production order of 16 parts. So, it is clear that the contractor has already produced some parts on 2-9-82 and he also had some parts in production.

4. Engineering for this part was completed before 9-10-81 and there has been no additional engineering work after that date. All the engineering costs were paid for by the Government during the design phase of the OAS/CMI contract; therefore, any engineering charges during subsequent spares buy should have been disallowed.

5. Manufacturing Estimates. Contractor's estimate of 4.84 hours of set-up time has no basis and is grossly inflated time. EMAC manufactures three parts, a spacer, cover, and decal. A total time of .15 hours is very reasonable for this process. PCB boards, which are approximately 1" x 1" with stand offs, are purchased from Arbor Corporation. Assembly involves connecting two diodes and gluing the board with the spacer and cover. Last operation is conformal coating. Based on a standard, assembly time of .38 hours is considered very reasonable. Therefore, total manufacturing hours for this part should not exceed .38 + .15 = .53 hours.

6. In accordance with JCH run dated 09/29/83 average cost of material is 2.06. It opens another question that the parts listed in the Air Force inventory are grossly overpriced. We called the local electronic shops and both of these diodes could be bought for $1.90 each retail. Wholesale price for these diodes should be no more than 25-30¢ each.

7. JCH run dated 09/29/83 shows closed quantity of 5690 and closed hours of 8840, average per part being 1.55 hours. Total material cost 11694.60 which translates into material cost of 2.06 each. However, production control ledger dated 2 Dec 1982 shows total parts completed up to 2 Dec 1983 is 4291, total requirements of 7623, and parts in production 767. We are unable to

39

determine how and where JCN has received its information. We are sure one of these is incorrect. Shop 2834 records shows serial #1203 manufactured on 3-8-82 and serial #7725 manufactured on 12-13-83, indicating that BMAC has an experience of 1200 parts on the date this estimate was prepared and already has some parts in production. It is our judgement that this order was filled from the existing parts in production and a separate order was not released for these parts.

8. Boeing cost breakdown structure submitted on 02-09-83 appears to support the price quoted. But if this is an example of price support, then we have very serious questions about Boeing's pricing system, and it is assumed that we are paying grossly inflated prices for all spare parts.

9. This part is so simple that it could be assembled in your basement at a cost of less than $5.00. If Boeing is pricing a part costing less than $5.00 for 715.59, their pricing system needs close examination.

10. Summary:

a. This part could be manufactured for less than $5.00.

b. Our estimate of .53 hours per part is based on Boeing Manufacturing Plan.

c. Boeing is charging for engineering when we have paid for it already.

d. Boeing price data supports their price; therefore, I have no confidence in their system and would recommend closer examination by pricing, PDP, and DCAA.

e. Overpriced portion of the cost for this part should be recovered.

f. Future pricing of spares should be based on should-cost not did-cost basis.

11. This concludes our action on this request. If you have any questions concerning this analysis, please contact the undersigned at 6-3476.

ORIGINAL SIGNED BY

OMPAL CHAUHAN
Chief, Manufacturing
Assessment Branch

BACKGROUND: THE TOTAL CONTRACT PRICE UNDER REVIEW FOR THIS ITEM WAS $2862.26, THEREFORE NO DCAA PRICING SUPPORT WAS REQUESTED. HOWEVER I FEEL THIS ITEM IS GROSSLY OVERPRICED AND THEREFORE ~~ARE~~ AM REQUESTING YOUR ASSISTANCE IN REACHING SUCH A CONCLUSION.

DESCRIPTION: A. ITEM IS AN APPROXIMATELY 1 INCH SQUARE EPOXY BASE, 1/4 INCH TH WITH TWO DIODES (FOR ELECTRICITY CONDUCTION) AND TWO 1/4 INCH SCREWS & WASHERS (FOR WIRE CONNECTION) ATTACHED. (SEE ATTACHED TECH ORDER)

B. THE ITEM CONSISTS OF 7 PART NUMBERS, 5 OF WHICH ARE AIR FORCE STOCKLISTED.

PART NUMBER	AIR FORCE STOCK NUMBER	STOCK LISTED PRICE
SS3501819	5940 01 140 0594	\$8.19x2 = \$16.
NAS601-3P	5305 00 813 2797	.04x2 = .0
MS35333-37	5310 00 579 0079	.15x2 = .3
JANTX1N4479	5961 01 011 4347 This Price is about $\$17^{00}$ too much	17.5
JANTX1N4469	5961 00 932 3491 This Price is about $\$13^{40}$ too much.	13.4
675-12930-5	DECAL - NOT REQUIRED IN ORDER FOR ASSEMBLY TO FUNCTION	\$47.7
675-12949-601	NOT STOCK LISTED - MANUFACTURER IS BOEING WICHITA MFC 83518	

PRICE: A. WHILE THE UNIT PRICE UNDER REVIEW IS $715.59, THE ITEM HAS BEEN PURCHASED FOR AS MUCH AS $1253.65 (REFERENCE CONTRACT F34601 81G 2559 0146 FOR 1EA PURCHASED 3 MAY 82 FROM BOEING WICHITA)

B. AN UNOFFICIAL ESTIMATE OF $35 WAS OBTAINED FROM A LOCAL ELECTRICAL COMPONENT MANUFACTURING COMPANY.

REVIEW: THE COMPONENT PART WHICH IS NOT STOCKLISTED IS THE 1 INCH SQUARE EPOXY BASE WHICH I FEEL WHEN ADDED TO THE STOCKLISTED ITEMS COULD NOT POSSIBLY INCREASE THE PRICE TO THAT WHICH THE AIR FORCE IS PAYING. I HAVE REQUESTED THE AFPRO AT BOEING WICHITA TO PROVIDE THE COST FOR THE EPOXY BASE (P/N 675-12949-601). HOWEVER I AM REQUESTING YOUR ASSISTANCE IN DETERMINING THE COST TO MANUFACTURE THE ENTIRE ASSEMBLY (P/N 675-12930-601). OUR LOCAL COMPETITION ADVOCATE OFFICE COULD NOT ASSIST US DUE TO A LACK OF ENGINEERING DATA.

C-ALC/PMXD (2)

AILY PROCUREMENT HISTORY RECORD　　　　10-19-83　　A-J041.-8CK-08-M60 PG　93

OR PP　BUYER - ODT　REPLENISHMENT SPARE　SN 5999011353522　NOUN CIRCUIT CAR　PROC METH CODE　STD PRICE

R/MIPR NO　PREVIOUS SN　PR/MIPR LI QTY　UNIT OF ISSUE　EST PRICE

NO	PIIN	PIIN SUPP	CLIN ELIN	DATE OF AWARD	BSB	CONTRACT L/I QTY	PRCH UNIT	COMP CODE	1ST ART	TYPE INSTR	TYPE CONT	NO SOL	OFR REC	TYPE RQM	PRI	ADV NEG	FOB	PRICE EVAL	EST ACT	UNIT PRICE
1	F3460181G2559	043801	0001AA	82277	8KD	6	EA	FOT		S	J	01	01	2	E	02	S	Z	A	614.42
2	F3460181G2559	030901	0001AS	82200	8KD	12	EA	FOT		S	J	01	01	2	E	02	S	Z	A	462.21
3	F3460181G2559	030900	0001AS	82145		12	EA										S		A	462.21
4	F3460181G2559	014601	0001AC	82123	8KD	1	EA	FOT		S	J	01	01	2	B	02	S	Z	A	1253.65
5	F3460181G2559	010601	0001AB	82106	8KD	6	EA	FOT		S	J	01	01	2	E	02	S	Z	A	640.78
6	F3460181G2559	006900	0001AG	82055	8KD	4	EA	FOP		S	J	01	01	2	B	02	S	Z	A	715.59
7	F3460181G2559	010600	0001AB	81357		6	EA										S		A	640.78
8	F3460181G2559	000901	0001AB	81356	8KD	3	EA	ONC		S	J	01	01	2	B	02	S	G	E	.00
9	F3460181G2559	000900	0001AB	81295		3	EA										S		A	938.15

NO	PREVIOUS CONTRACTOR	CONTR IDENT	T I	PMC	AMOP	TYPE CONTRR	MANUFACTURERS PART NUMBER	ADM L/T	SCH PLT	ACT PLT	DATE LAST DELIVERY
1	BOEING CO WICHTA THE	82918		3L	0	LB	675-12930-601	018	027	004	82273
2	BOEING CO WICHTA THE	82918		3L	0	LB	675-12930-601	020	012	012	82188
3	BOEING CO WICHTA THE	82918		A			675-12930-601	000	043	043	82188
4	BOEING CO WICHTA THE	82918		3L	0	LB	675-12930-601	081	076	068	82055
5	BOEING CO WICHTA THE	82918		3L	0	LB	675-12930-601	079	072	074	82034
6	BOEING CO WICHTA THE	82918		3L	0	LB	675-12930-601	056	041	047	82006
7	BOEING CO WICHTA THE	82918		A			675-12930-601	000	040	040	82032
8	BOEING CO WICHTA THE	82918		3L	0	LB	675-12930-601	045	048	050	81308
9	BOEING CO WICHTA THE	82918		A			675-12930-601	000	011	011	81306

→ 675-12930-601 CIRCUIT CARD ASSY

Diode Boards

FRC

10		NO. COMPONENTS		WBS
675-12930-601	E	12	5690 — 8840 hr - 485-450	11150
675-70522-1	E	10	786-448. —72-25	11150
675-70522-601	E	12	83 — 117	11150
675-70522-602	E	12	55 - 71.5	11150
675-70522-603	E	12	85-102	11150
675-70522-604	E	12	164-159	11150
675-70530-2	E	7	36 - 40	11150
675-70531-1	E	11	84-455	11150
675-70532-1	E	12	89 - 585	11150
675-70533-1	E	80	99 -1130	11150

12-13-83

4001 Completed

Requireme 7264

760 order open in Qty of 20 } 38. open orders

Patene Chavitz. Mary.

Purchased

Arb CD # ~~[illegible]~~ 21948

- ? 4132

Shop 2834 -

1st orders Aug 10, 83. ?

Material: $ 2.06 each: Avg Material

Boeing Fmc Run date. 09/29/83

closed Qty - 5690

closed hrs - 8840 } Avg hrs 1.55 -

closed Qty - 5690

" Material - 11694.6 } 2.06 Each.

Mark Says 2.25

30 orders for Qty of 600

727

12926-601

12388-601

12930

12376

- VLV Craig. Matrix kits

Vendor Code #

PUR [illegible]

20 Dec 83
JFM

675-12930

CIRCUIT card Assy - Diode Power Dist. Box

This part serves the function of spike suppresson of voltages to relays. One of the 2 diodes supresses spikes in one direction, and the other supresses in the other diretion

The device is used on many relays, The current requirements total 7282 assemblies, 4101 having already been completed, and 660 units are now released for production. The following parts are the "next assemblies", altho many of the 675-12930 circuit card assys are shipped in kits and are not assembled at BMAC:

520-10550	2	
675-12080	28	
675-12090	2	-1,601
675-12249	1	-502
675-13418	7	
675-70522	5	
675-70594	22	Solves from [illegible]

During the period Jan 1, 1982 - JAN 1, 1983, 2340 units were completed.

ADW 317 E4

BOEING

Fuselage
Forward Compartment

ITEM IN QUESTION
P/N 675-12930-601

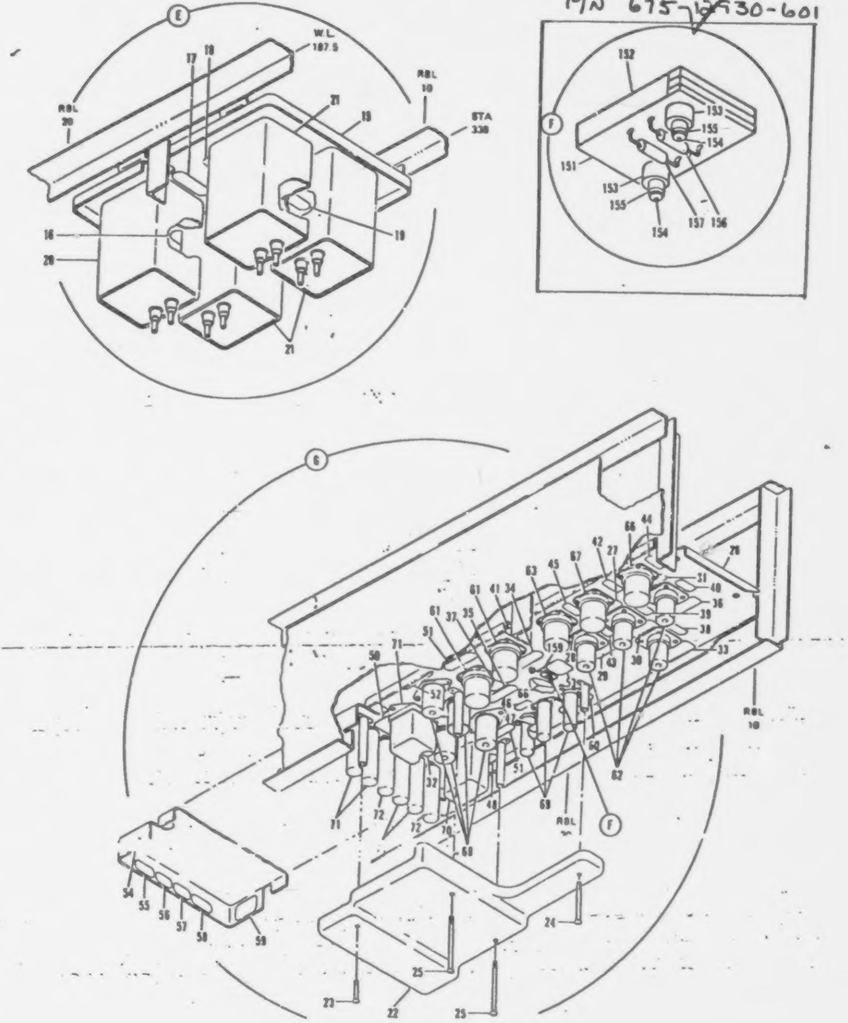
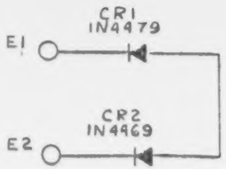

E
W.L. 107.5
17
18
RBL 20
RBL 10
STA 338
21
19
16
20
19
21
F
152
153
155
154
151
153
155
154
157
156
G
66
44
42
27
26
63
45
67
31
40
36
61
41
34
39
38
33
61
37
35
51
159
28
43
29
30
50
71
52
46
66
47
RBL 10
32
51
60
62
71
72
72
70
68
48
69
RBL
F
54
55
56
57
58
59
24
25
23
22
25

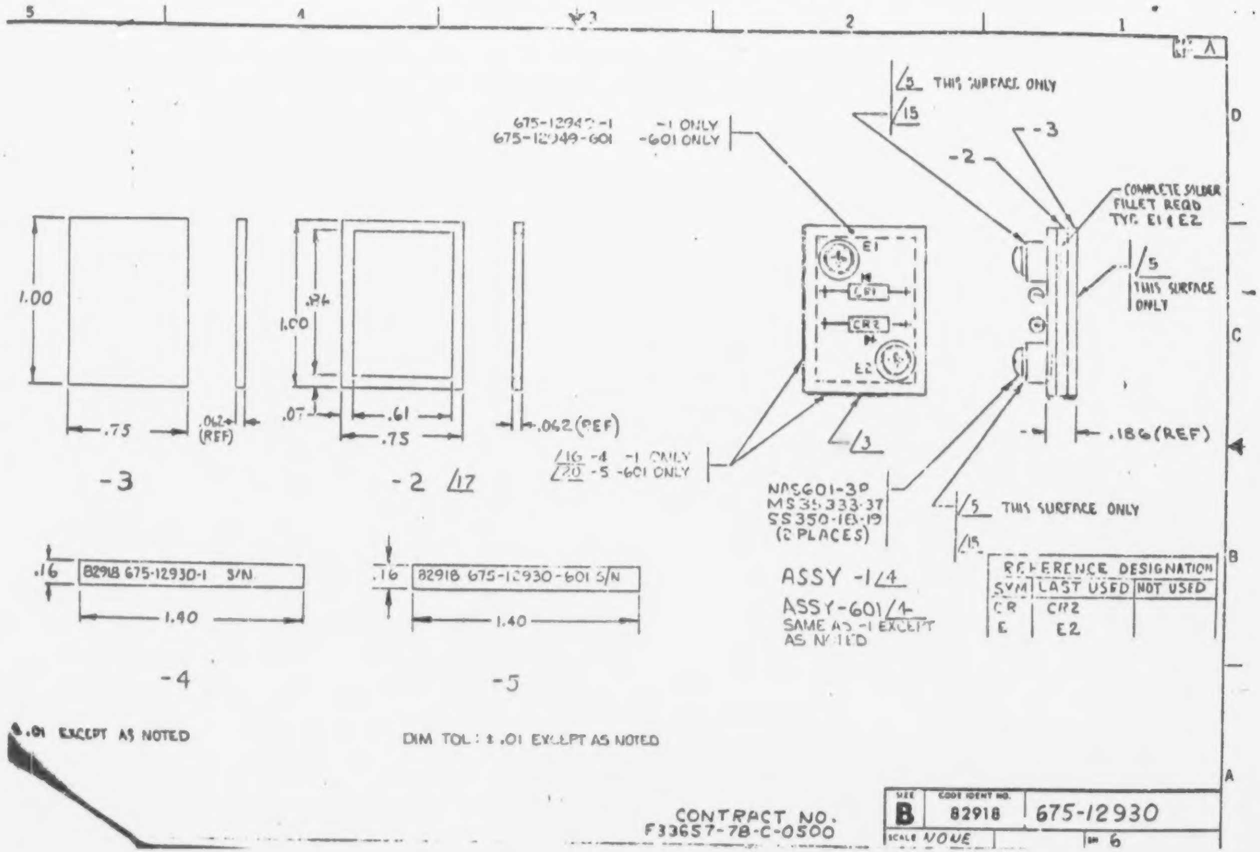
Figure 499. BNS EVS Equipment Kit Installation (A6006) (Sheet 3 of 4)


E1
CR1
1N4479
E2
CR2
1N4469

SCHEMATIC -1

CONTRACT NO.
F33657-78-C-0500

SIZE	CODE IDENT NO.	
B	82918	675-12930
SCALE NONE		4


5
4
3
2
1
D
C
B
A
/5 THIS SURFACE ONLY
/15
675-12949-1 -1 ONLY
675-12949-601 -601 ONLY
-2
-3
COMPLETE SOLDER FILLET REQD TYP. E1 & E2
/5 THIS SURFACE ONLY
E1
CR1
CR2
E2
.186 (REF)
1.00
.75
.062 (REF)
-3
1.00
.84
.07
.61
.75
.062 (REF)
-2 /17
/16 -4 -1 ONLY
/20 -5 -601 ONLY
/3
NAS601-3P
MS35333-37
SS350-1B-19
(2 PLACES)
/5 THIS SURFACE ONLY
/15
ASSY -1 /4
ASSY-601 /4
SAME AS -1 EXCEPT AS NOTED
REFERENCE DESIGNATION
SYM LAST USED NOT USED
CR CR2
E E2
.16
82918 675-12930-1 S/N
1.40
-4
.16
82918 675-12930-601 S/N
1.40
-5
±.01 EXCEPT AS NOTED
DIM TOL: ±.01 EXCEPT AS NOTED
CONTRACT NO.
F33657-78-C-0500
SIZE B
CODE IDENT NO. 82918
675-12930
SCALE NONE
6

7 June 84

OM Chauhan
PDP

Pricing Review of PK 0010, contract 0439, P00507

1. General – A cursory review of subject PK has resulted in the following apparent pricing anamolies:

a. With reference to subject file: Blue tab shows supplier quote dated Oct 17, 83.

b. The red tab, pages 5 and 6 lists the amounts resulting from ~~items~~ negotiation with the contractor (the same items as shown in a.)

c. A specific example: Refer to blue tab item 11 856A1104P01, Pliers @ $80/un
Refer to Red tab, page 5, Ser No. RPC0613 pliers, 2 units @ $748/unit

d. Similar anamolies are indicated on the white tab. Pencilled figures are taken from the supplier quote in the Blue tab.

2. The foregoing information appears to be questionable. Also it is quite possible that the reasonable supplier price for items quoted could be questioned. For example the pliers (see Black tab) appear to be excessively priced and may well be worth no more than $8.

3. If further study is needed, IE will provide information, otherwise this concludes the requested review.

John
I. E.

AWA

PRICED SPARE PARTS/SUPPORT EQUIPMENT LIST AND DELIVERY SCHEDULE

1. BASIC REV	Basic	2. DATE PREP					
4. PROC INSTRUMENT ID, NO./PIIN	5. SPIIN	6. ESN	7. CLIN/ID ESN	8A. CONTR DODAAD	8B. CONTR FSCM	9. END ITEM MDS/TMS	10. INVESTMENT
F33657-79-C-0439	A00507	J	0026	EY 9428	82918	KC-135R	| |

11. ACT. C	12. ITEM	13. NSN	14. PURCH QTY	15. PU	16. UNIT PRICE	17. TOTAL PRICE	18. NET CHANGE
	J215	5120NCC200526	2	EA	748.00	1496.00	
19. FSCM PART NO.	58828 856A1104P01	23. DEL SCHEDULE DATE YYMMM	84 May	QTY	2	24. PIOS DEF	A. PK0010
20. SHIP TO	FB4621	21. MARK FOR		22. NOUN	Pliers		
25. REMARKS	FAD: Not Required						

80 —

11. ACT. C	12. ITEM	13. NSN	14. PURCH QTY	15. PU	16. UNIT PRICE	17. TOTAL PRICE	18. NET CHANGE
	J216	5315NCD701740	3	EA	668.00	2006.00	
19. FSCM PART NO.	58828 856A1106G01	23. DEL SCHEDULE DATE YYMMM	84 May	QTY	3	24. PIOS DEF	A. PK0010
20. SHIP TO	FB4621	21. MARK FOR		22. NOUN	Pin, Guide		
25. REMARKS	FAD: Not Required						

305

11. ACT. C	12. ITEM	13. NSN	14. PURCH QTY	15. PU	16. UNIT PRICE	17. TOTAL PRICE	18. NET CHANGE
	J217	5180NCC200527	2	EA	8111.00	16222.00	
19. FSCM PART NO.	58828 856A1118G01	23. DEL SCHEDULE DATE YYMMM	84 May	QTY	2	24. PIOS DEF	A. PK0010
20. SHIP TO	FB4621	21. MARK FOR		22. NOUN	Gage Set		
25. REMARKS	FAD: Not Required						

6532

11. ACT. C	12. ITEM	13. NSN	14. PURCH QTY	15. PU	16. UNIT PRICE	17. TOTAL PRICE	18. NET CHANGE
	J218	4920NCD701741	2	EA	18280.00	36560.00	
19. FSCM PART NO.	58828 856A1120G02	23. DEL SCHEDULE DATE YYMMM	84 May	QTY	2	24. PIOS DEF	A. PK0010
20. SHIP TO	FB4621	21. MARK FOR		22. NOUN	Fixture I/R		
25. REMARKS	FAD: Not Required						

105

15471

ACTION CODES:
PA - PART ADDED
UP - UNIT PRICE CHANGE
PD - PART DELETED
DS - DELIVERY SCHEDULE CHANGE
QD - QUANTITY DECREASE
QI - QUANTITY INCREASE
EC - ERROR CORRECTION
DC - DESTINATION CHANGE

¹REPRESENTS NET AMOUNT OF INCREASE/DECREASE WHEN MODIFYING EXISTING ITEM NO. ²ESTIMATED [illegible] QTY AND [illegible] INCREASE OR DECREASE AS APPLICABLE + OR - (IN ITEM NO.) = ADDITION OR DELETION

AWA

AWA

PRICED SPARE PARTS/SUPPORT EQUIPMENT LIST AND DELIVERY SCHEDULE

1. BASIC REV BASIC	2. DATE PREP	3. PAGE 14 OF 21					
4. PROC INSTRUMENT ID. NO./PIIN F33657-79-C-0439	5. SPIIN A00506	6. EXH J	7. CLIN ID EXH 0026	8A. CONTR DODAAD FY 9428	8B. CONTR FSCM 82918	9. END ITEM MDS/TMS KC-135R	10. INVESTMENT/EXPENSE ITEMS [ ] [ ]

11. ACT. C	12. ITEM J124	13. NSN 5120NC445307L	14. PURCH QTY 2	15. PU EA	16. UNIT PRICE $920.00	17. TOTAL PRICE $1,840.00	18. NET CHANGE	
19. FSCM PART NO. 58828 856A1105P01			23. DEL SCHEDULE DATE 84 May QTY 2				24. PIOS DEFINITIZED A. PK0006 B.	
20. SHIP TO FE 4621	21. MARK FOR	22. NOUN Puller-Pin						
25. REMARKS FAD: Required								

11. ACT. C	12. ITEM J125	13. NSN 4920NC701623P	14. PURCH QTY 3	15. PU EA	16. UNIT PRICE $4,373.00	17. TOTAL PRICE $13,119.00	18. NET CHANGE	
19. FSCM PART NO. 58828 856A1107G01			23. DEL SCHEDULE DATE 84 May QTY 3				24. PIOS DEFINITIZED A. PK0006 B.	
20. SHIP TO FE 4621	21. MARK FOR	22. NOUN Fixture Lift						
25. REMARKS FAD: Required								

11. ACT. C	12. ITEM J126	13. NSN 4920NC701624P	14. PURCH QTY 2	15. PU EA	16. UNIT PRICE $5,691.00	17. TOTAL PRICE $11,382.00	18. NET CHANGE	
19. FSCM PART NO. 58828 856A1110G01			23. DEL SCHEDULE DATE 84 May QTY 2				24. PIOS DEFINITIZED A. PK0006 B.	
20. SHIP TO FE 4621	21. MARK FOR	22. NOUN Stand, Install						
25. REMARKS FAD: Required								

11. ACT. C	12. ITEM J127	13. NSN 4920NC701625P	14. PURCH QTY 2	15. PU EA	16. UNIT PRICE $2,154.00	17. TOTAL PRICE $4,308.00	18. NET CHANGE	
19. FSCM PART NO. 58828 856A1123G01			23. DEL SCHEDULE DATE 84 May QTY 2				24. PIOS DEFINITIZED A. PK0006 B.	
20. SHIP TO FE 4621	21. MARK FOR	22. NOUN Guide Fan						
25. REMARKS FAD: Required								

ACTION CODES
PA - PART ADDED
UP - UNIT PRICE CHANGE
PD - PART DELETED
DS - DELIVERY SCHEDULE CHANGE
QD - QUANTITY DECREASE
QI - QUANTITY INCREASE
EC - ERROR CORRECTION
DC - DESTINATION CHANGE

[1] REPRESENTS NET AMOUNT [illegible] INCREASE/DECREASE WHEN MODIFYING EXISTING ITEM NO. E = ESTIMATED (IN QTY AND $) + INCREASE OR DECREASE AS APPLICABLE FOR NEW ITEM NO. OR ADDITION OR DELETION

AFSC FORM 731

AWA AWA

PRICED SPARE PARTS/SUPPORT EQUIPMENT LIST AND DELIVERY SCHEDULE

1. BASIC REV	BASIC	2. DATE PREP		3. PAGE	18 OF 21		
4. PROC INSTRUMENT ID, NUMBER	5. SPIIN	6. EXH	7. CLIN/ID EXH	8A. CONTR DODAAD	8B. CONTR FSCM	9. END ITEM MDS/TMS	10. INVESTMENT/EXPENSE ITEMS
F33657-79-C-0439	A00506	J	0026	EY 9428	82918	KC-135R	[ ] [ ]

11. ACT. C	12. ITEM ¹	13. NSN	14. PURCH QTY ¹	15. PU	16. UNIT PRICE	17. TOTAL PRICE ¹	18. NET CHANGE
	J140	5120NCC500016	3	EA	$2,688.00	$8,064.00	

19. FSCM PART NO.	20. SHIP TO	21. MARK FOR	22. NOUN	23. DEL SCHEDULE DATE YYMMM A	QTY	24. PIOS DEFINITIZED A.	B.
58828 856A3254G01	FE 4621		Wrench	84 May	3	PK0006	

25. REMARKS FAD: Required

11. ACT. C	12. ITEM ¹	13. NSN	14. PURCH QTY ¹	15. PU	16. UNIT PRICE	17. TOTAL PRICE ¹	18. NET CHANGE
	J141	4920NCD701659	3	EA	$3,067.00	$9,201.00	

19. FSCM PART NO.	20. SHIP TO	21. MARK FOR	22. NOUN	23. DEL SCHEDULE DATE YYMMM A	QTY	24. PIOS DEFINITIZED A.	B.
58828 856A3252G01	FE 4621		Sling	84 May	3	PK0006	

25. REMARKS FAD: Required

11. ACT. C	12. ITEM ¹	13. NSN	14. PURCH QTY ¹	15. PU	16. UNIT PRICE	17. TOTAL PRICE ¹	18. NET CHANGE
	J142	4920NCD701660	4	EA	$3,814.00	$15,256.00	

19. FSCM PART NO.	20. SHIP TO	21. MARK FOR	22. NOUN	23. DEL SCHEDULE DATE YYMMM A	QTY	24. PIOS DEFINITIZED A.	B.
58828 856A3239G01	FE 4621		Stand, Storage	84 May	4	PK0006	

25. REMARKS FAD: Required

11. ACT. C	12. ITEM ¹	13. NSN	14. PURCH QTY ¹	15. PU	16. UNIT PRICE	17. TOTAL PRICE ¹	18. NET CHANGE
	J143	4920NCD701662	3	EA	$1,401.00	$4,203.00	

19. FSCM PART NO.	20. SHIP TO	21. MARK FOR	22. NOUN	23. DEL SCHEDULE DATE YYMMM A	QTY	24. PIOS DEFINITIZED A.	B.
58828 856A3094G01	FE 4621		Baseplate	84 Ma	3	PK0006	/

25. REMARKS FAD: Required

ACTION CODES
PA - PART ADDED
UP - UNIT PRICE CHANGE
PD - PART DELETED
DS - DELIVERY SCHEDULE CHANGE
QD - QUANTITY DECREASE
QI - QUANTITY INCREASE
EC - ERROR CORRECTION
DC - DESTINATION CHANGE

¹REPRESENTS NET AMOUNT OF INCREASE/DECREASE WHEN MODIFYING EXISTING ITEM NO. ESTIMATED ( ) IN QTY AND $ ( ) INCREASE OR DECREASE AS APPLICABLE FOR ( ) IN ITEM NO. = ADDITION OR DELETION

AFSC FORM APR 78 731

AWA

AWA

PRICED SPARE PARTS/SUPPORT EQUIPMENT LIST AND DELIVERY SCHEDULE

1. BASIC REV: BASIC
2. DATE PREP:
3. PAGE: 19 OF 21
4. PROC INSTRUMENT ID, NO./PIIN: F33657-79-C-0439
5. SPIIN: A00506
6. FAN: J
7. CLIN/ID EAN: 0026
8A. CONTR DODAAD: EY 9428
8B. CONTR FSCM: 82918
9. END ITEM MDS/TMS: KC-135R
10. INVESTMENT/EXPENSE ITEMS: [ ] [ ]

11. ACT. C:
12. ITEM: J144 —
13. NSN: 5120NCC500017
14. PURCH QTY: 2
15. PU: EA
16. UNIT PRICE: $1,888.00
17. TOTAL PRICE: $3,776.00
18. NET CHANGE:
19. FSCM PART NO.: 58828 856A3018G01
20. SHIP TO: FE 4621
21. MARK FOR:
22. NOUN: Pusher
23. DEL SCHEDULE: DATE YYMMM A. 84 May QTY 2 B.
24. PIOS DEFINITIZED: A. PK0006 B.
25. REMARKS: FAD: Required

11. ACT. C:
12. ITEM: J145 —
13. NSN: 4920NCD701663
14. PURCH QTY: 3
15. PU: EA
16. UNIT PRICE: $4,445.00
17. TOTAL PRICE: $13,335.00 —
18. NET CHANGE:
19. FSCM PART NO.: 58828 856A3017G02
20. SHIP TO: FE 4621
21. MARK FOR:
22. NOUN: Fixture, Torque
23. DEL SCHEDULE: DATE A. 84 May QTY 3 B.
24. PIOS DEFINITIZED: A. PK0006 B.
25. REMARKS: FAD: Required

11. ACT. C:
12. ITEM: J147 —
13. NSN: 5180NC149916L
14. PURCH QTY: 4
15. PU: EA
16. UNIT PRICE: $17,294.00
17. TOTAL PRICE: $69,176.00 —
18. NET CHANGE:
19. FSCM PART NO.: 82918 F458-54843-1
20. SHIP TO: FE 4621
21. MARK FOR:
22. NOUN: Wrench Set
23. DEL SCHEDULE: DATE A. 84 May QTY 4 B.
24. PIOS DEFINITIZED: A. PK0006 B.
25. REMARKS: FAD: Required

11. ACT. C:
12. ITEM:
13. NSN:
14. PURCH QTY:
15. PU:
16. UNIT PRICE:
17. TOTAL PRICE:
18. NET CHANGE:
19. FSCM PART NO.:
20. SHIP TO:
21. MARK FOR:
22. NOUN:
23. DEL SCHEDULE: DATE YYMMM A. QTY B.
24. PIOS DEFINITIZED: A. — B.
25. REMARKS:

ACTION CODES

PA – PART ADDED	PD – PART DELETED	QD – QUANTITY DECREASE	EC – ERROR CORRECTION
UP – UNIT PRICE CHANGE	DS – DELIVERY SCHEDULE CHANGE	QI – QUANTITY INCREASE	DC – DESTINATION CHANGE

¹REPRESENTS NET AMOUNT OF INCREASE/DECREASE WHEN MODIFYING EXISTING ITEM NO. ENTER ESTIMATED $ (IN QTY AND $) $ INCREASE OR DECREASE AS APPLICABLE: + OR – (IN ITEM NO.) = ADDITION OR DELETION

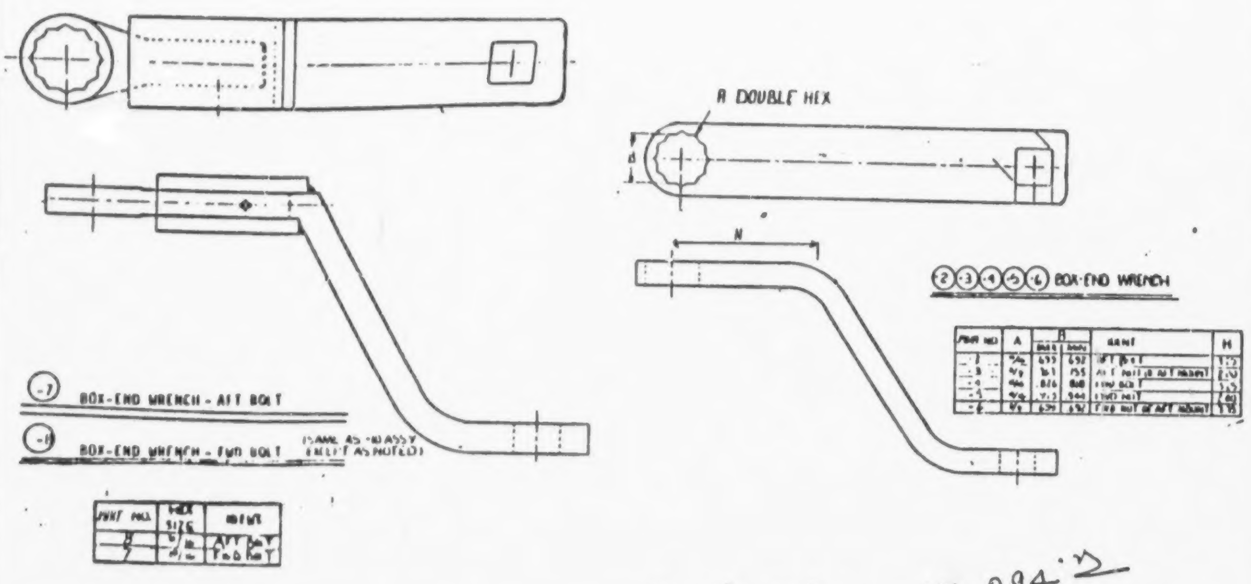
AFSC FORM APR 70 731

AFSC – Andrews AFB Md

MFGR : BMAC

KC-135 Rev. Orig. ... Control Number RPC0515

DATA SHEET E: SUPPORT AND TEST EQUIPMENT OR TRAINING MATERIAL DESCRIPTION AND JUSTIFICATION


A DOUBLE HEX
d
N
②-3-4-5-6 BOX-END WRENCH
-7 BOX-END WRENCH - AFT BOLT
-8 BOX-END WRENCH - FWD BOLT (SAME AS -7 ASSY EXCEPT AS NOTED)

PART NO.	A	B		USAGE	H
		[illegible]	[illegible]		
-2	[illegible]	.695	.692	AFT BOLT	[illegible]
-3	[illegible]	.761	.755	AFT BOLT [illegible]	[illegible]
-4	[illegible]	.816	.810	FWD BOLT	[illegible]
-5	[illegible]	[illegible]	.944	FWD NUT	[illegible]
-6	[illegible]	.694	.692	FWD NUT OF AFT [illegible]	[illegible]

PART NO.	HEX SIZE	USAGE
-8	5/16	AFT BOLT
-7	[illegible]	FWD BOLT

Boeing MFG = 17,294.72

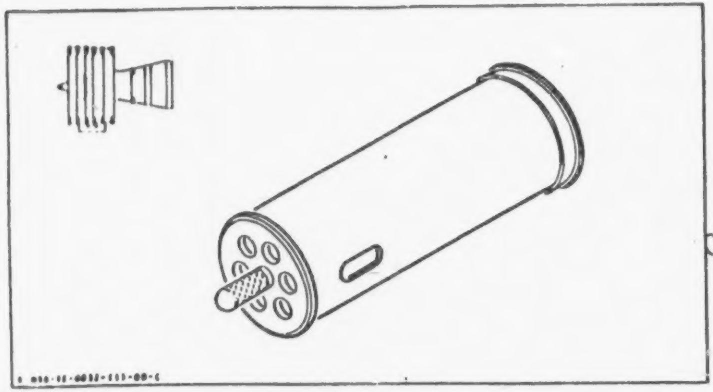
Sheet 1 of 1

MFGR: CFMI

KC-135 Re-engine Control Number HPC0531

DATA SHEET E: SUPPORT AND TEST EQUIPMENT OR TRAINING MATERIAL DESCRIPTION AND JUSTIFICATION

1888.13



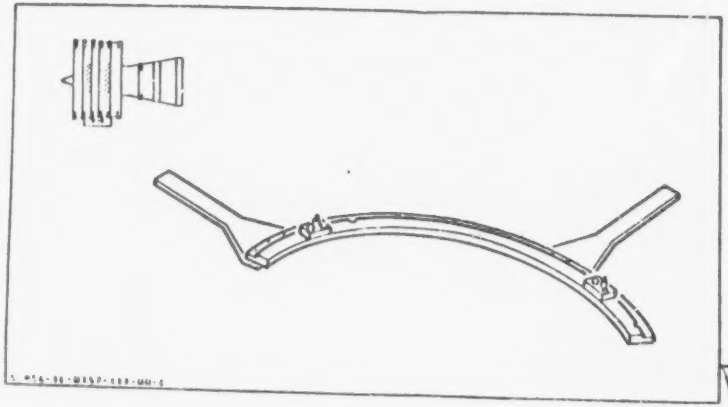
856A3018

Boeing = 1888.13
~~$~~
CFMI = 1202
676.90

Sheet 4 of 4

KC-135 Re-engine ( ) Control Number RPC0526

DATA SHEET E: SUPPORT AND TEST EQUIPMENT OR TRAINING MATERIAL DESCRIPTION AND JUSTIFICATION



Boeing 2688.5

CFMI # 2051

Profit 637.5

05GA3254

Sheet 4 of 4

AWA

AWA

PRICED SPARE PARTS/SUPPORT EQUIPMENT LIST AND DELIVERY SCHEDULE

1. BASIC REV	BASIC	2. DATE PREP		3. PAGE	11 OF 21		
4. PROC INSTRUMENT ID, NO./PIIN	5. SPIIN	6. EXH	7. CLIN/ID EXH	8A. CONTR DODAAD	8B. CONTR FSCM	9. END ITEM MDS/TMS	10. INVESTMENT/EXPENSE ITEMS
F33657-79-C-0439	A00506	J	0026	EY 9428	82918	KC-135R	[ ] [ ]

11. ACT. C	12. ITEM	13. NSN	14. PURCH QTY	15. PU	16. UNIT PRICE	17. TOTAL PRICE	18. NET CHANGE
	J112	1730NC175523P	10	EA	$1,478.00	$14,780.00	

19. FSCM PART NO. 82918 F458-40232-2

20. SHIP TO FE 4621 | 21. MARK FOR | 22. NOUN Lock Pin

23. DEL SCHEDULE DATE 84 May YYMMM QTY 10

24. PIOS DEFINITIZED a. PK0006 b.

25. REMARKS FAD: Not Required

11. ACT. C	12. ITEM	13. NSN	14. PURCH QTY	15. PU	16. UNIT PRICE	17. TOTAL PRICE	18. NET CHANGE
	J113	5120NC445305L	2	EA	$1,622.00	$3,244.00	

19. FSCM PART NO. 58828 856A2525G01

20. SHIP TO FE 4621 | 21. MARK FOR | 22. NOUN Adapter

23. DEL SCHEDULE DATE 84 May YYMMM QTY 2

24. PIOS DEFINITIZED a. PK0006 b.

25. REMARKS FAD: Required

11. ACT. C	12. ITEM	13. NSN	14. PURCH QTY	15. PU	16. UNIT PRICE	17. TOTAL PRICE	18. NET CHANGE
	J114	4920NC701612P	2	EA	$4,557.00	$9,114.00	

19. FSCM PART NO. 58828 856A2534G01

20. SHIP TO FE 4621 | 21. MARK FOR | 22. NOUN Support

23. DEL SCHEDULE DATE 84 May YYMMM QTY 2

24. PIOS DEFINITIZED a. PK0006 b.

25. REMARKS FAD: Required

11. ACT. C	12. ITEM	13. NSN	14. PURCH QTY	15. PU	16. UNIT PRICE	17. TOTAL PRICE	18. NET CHANGE
	J115	4920NC701613P	2	EA	$4,545.00	$9,090.00	

19. FSCM PART NO. 58828 856A2555G02

20. SHIP TO FE 4621 | 21. MARK FOR | 22. NOUN Beam-Lifting

23. DEL SCHEDULE DATE 84 May YYMMM QTY 2

24. PIOS DEFINITIZED a. PK0006 b.

25. REMARKS FAD: Required

ACTION CODES
PA - PART ADDED
UP - UNIT PRICE CHANGE
PD - PART DELETED
DS - DELIVERY SCHEDULE CHANGE
QD - QUANTITY DECREASE
QI - QUANTITY INCREASE
EC - ERROR CORRECTION
DC - DESTINATION CHANGE

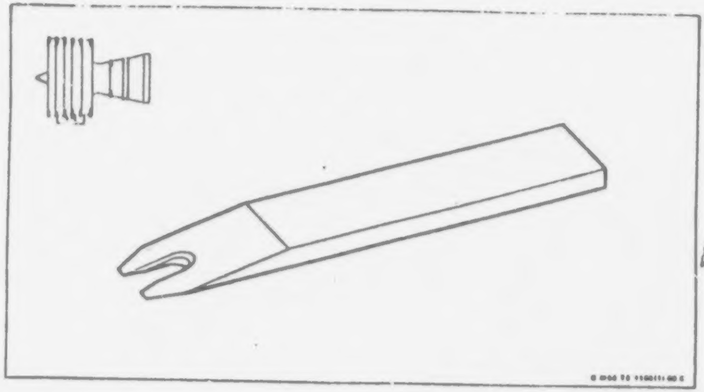
[illegible] WHEN MODIFYING EXISTING ITEM NO. ESTIMATED $ IN QTY AND $ INCREASE OR DECREASE AS [illegible]

AFSC 731

MFGR: CFMI

KC-135 Re-engine | Control Number RPCU504 R1

DAYA SHEET E: SUPPORT AND TEST EQUIPMENT OR TRAINING MATERIAL DESCRIPTION AND JUSTIFICATION



\$ 353

856A1105

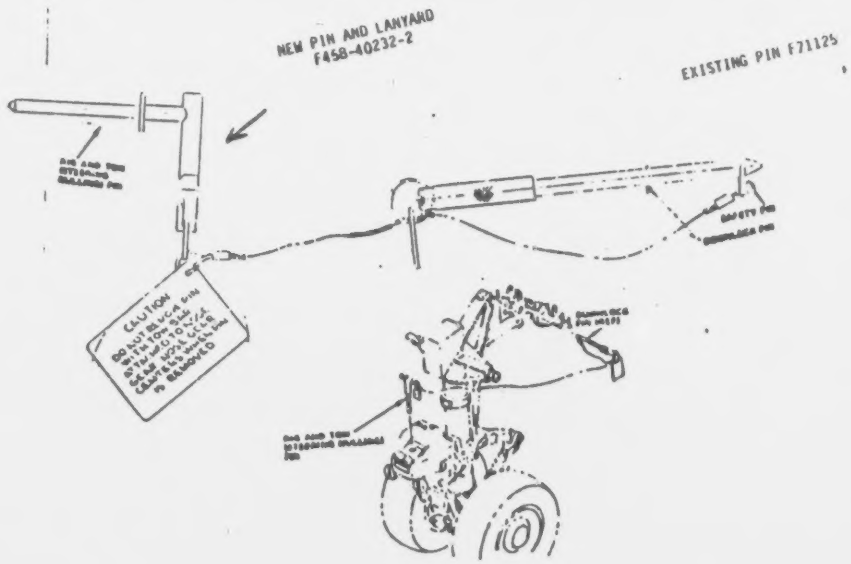
Boeing Price: \$ 920.00
CFMI " = 353.00
Profit 667.00

Sheet 4 of 4

MFGR: BMAC

KC-135 Aircraft/Engine ( ) Control Number RPC0449

DATA SHEET E: SUPPORT AND TEST EQUIPMENT OR TRAINING MATERIAL DESCRIPTION AND JUSTIFICATION


NEW PIN AND LANYARD
F458-40232-2
EXISTING PIN F71125
CAUTION
SAFETY PIN

Sheet 3 of 3

Mr. **Chauhan**. Mr. Chairman, then I would do that. I will skip some parts of my statement, but I would like to read this.

There are some obvious reasons this thing is happening, and I want to share with you some of these.

Senator **Grassley**. What page are you on? The page number is down on the bottom.

Mr. **Chauhan**. Page 10.

Senator **Grassley**. Page 10, OK; proceed.

Mr. **Chauhan**. A significant number of Government contracts are unpriced orders on spares. These are situations in which contractors have already obtained contracts. The major portion of a given contract has already been completed, and a significant number of deliveries on it have already been accepted. Under these conditions, how much leverage can a negotiator have? The negotiator has little or no leverage, and he must cope with the pressure to definitize the contract. The pressure is not on the company, Mr. Chairman. The pressure is on the negotiator.

The company knows that if they drag long enough, we will come back and negotiate, and that is the technique very commonly used. When they do not like the price, they go back and wait, and there is pressure on the Government people to definitize those contracts within certain time limits.

Another vehicle used is the open orders. Contractors really like this. They can charge virtually whatever they want. The limiting factor in this instance is how much the Government has to spend. The amount available for the Department of Defense to spend is normally the only limiting factor in those kinds of situation.

Now, Mr. Chairman, as you well understand, there is remarkable difference between the law and custom. Customs are adapted from long traditions and practices, and often supersede the law in daily practice. We have a lax attitude toward the contractors, and we have had this lax attitude for a long, long time, in daily practice. The custom is to get along with the contractor.

In the working situation, it is very much emphasized, that you get along with the contractor, often at Government expense.

Senator **Grassley**. You mean your superiors tell you that you have to get along with the contractors?

Mr. **Chauhan**. Mr. Chairman, not in those words, but it is expected. If you do not, then there are ways to take care of you in the bureaucracy. We will cut down your office door, or something.

We have an understanding that if you go along you get a better appraisal. So, there are those type of incentives that force you into compliance, through those kinds of traditions and customs.

Our purpose is not to ruffle feathers, and not to make waves. Sometimes there is law to protect the interest of the Government, but there is a custom to look good and to be nice to the contractor. When there is conflict between the law and the custom, the custom prevails. If you break custom, the social sanction follows.

If you are not a nice guy that is, you don't go along with the system, when you retire, nobody is going to come see you, and you are not going to have a job. That is the incentive for you.

Senator **Heflin**. What about that? You said that you do not have a job. To the best of your knowledge, how many people work for defense contractors after they leave government service and retire?

Mr. CHAUHAN. Almost all of them.

Senator HEFLIN. Almost all of them?

Mr. CHAUHAN. Yes, sir.

Senator HEFLIN. How about the military? Through your experience what percentage of people who were on military assignment, officers or enlisted men, work on a defense contract when they retire?

Mr. CHAUHAN. Almost all of them.

Senator HEFLIN. That may well be the root of some of this problem.

Mr. CHAUHAN. Mr. Chairman, see, in all fairness, I think there is nothing wrong with going to work for some of the contractors, because that is the business these people have been in, and that is the business they know. What makes the difference is they go to work for the immediate same contractor they have been doing business with. That is the bad point of it.

These people have been officers in the military or civilians in the civil service, for 20 or 30 years and the only thing they know is the defense business. We may have to allow them to work for somebody in the same type of work, but we need to limit these people, to work for contractors they have not dealt with. For example a person working at Boeing, could work for General Dynamics but not for Boeing.

Senator HEFLIN. Maybe we are retiring them too early.

Mr. CHAUHAN. That could be the problem.

Senator GRASSLEY. But then, again, we have said that the incentive system is not good. The incentive system works for them while they are a government employee to—in order to get along, to go along.

Mr. CHAUHAN. Yes, sir.

Senator GRASSLEY. In order to protect their job security when they leave government service?

Mr. CHAUHAN. That is exactly right.

Senator GRASSLEY. The revolving door.

Mr. CHAUHAN. That is right.

I have in my testimony on one program, the Air Force Plant Representative Officer at the Hughes Aircraft Co. and three Maverick Program managers who were managing the program for the Government went to work for Hughes, one after the other. These same people were responsible for overseeing the contract performance on this contract.

Senator HEFLIN. Is the incentive such that after 20 years of military service, servicemen opt for retirement and work for a defense contractor, as opposed to remaining in military service for an additional 10 years?

Mr. CHAUHAN. Yes, sir.

Senator HEFLIN. To the best of your knowledge, do many uniform servicemen, who are attached to defense contract work, stay on after 20 years of service to complete the 30 years of service?

Mr. CHAUHAN. Senator, I am not qualified to make a statement on that, but what I know is that the system is up or out, either you get promoted or you are out. It does not permit any sort of deviation to allow for extending the service.

I think that could be part of our problem, because an officer who has 20 years of service, who has joined the service at 20 and now is 40 years old is retired, you cannot expect him to sit home. I think he wants to make some other living. He retires at the prime time, when he has college-aged kids, who need education, and he needs this additional income.

So I think an incentive system, and the way the system works, may be the root cause for this problem.

Senator GRASSLEY. Go ahead, Mr. Chauhan.

Mr. CHAUHAN. Senator, I am going to skip some details—I am going to talk about some reasons for the gross overspending, it is on page 15.

Senator GRASSLEY. I am interested in what you had to say about the B–1.

Would you go back to page 13?

Mr. CHAUHAN. Yes, sir.

I want to give you, Mr. Chairman, some examples of fixed-price contract.

Exhibit 6 is an example of a current fixed-price contract, and I want to stress one of the biggest problems. That is, when the contract begins, in 1981, they sign a contract for about this much, at about $160 million.

Now, in the same year, they introduce some kind of change, they go up here, they introduce another change upward, so at this point in time, Mr. Chairman, the Maverick Program is in the red about $20 million cost overrun on this program. If we had made no changes, then they would have to keep this $20 million. But we made changes which increased the contract price, absorbing the overrun. They used this change mechanism to cover their overrun.

As soon as this change was made, they were no longer overrunning; rather, they had more money available to them.

As exhibit 6 shows, they introduced another change, and they introduced another. The bigger jump would be buying additional missiles. By this practice of changing, they are introducing higher costs in the name of improved efficiency, or better system. I think this is one of the biggest problems as shown in exhibits 7, 8, and 9.

Senator GRASSLEY. That looks to me like an example, the opposite of a cost overrun. It looks to me like we have appropriated more money than needs to be spent to buy what we said we wanted to buy, is that right?

Mr. CHAUHAN. What it says is, that is the contracted price—the fixed price.

Now, if you do not introduce any change, this would be the price. But somehow the program office got here, and got more money appropriated from the Congress, and introduced a change, and another change, and another big change.

Senator GRASSLEY. Beyond where the cost incurred was supposed to go?

Mr. CHAUHAN. Yes, sir.

Senator GRASSLEY. In the year 1983, is that right?

Mr. CHAUHAN. Correct.

Senator GRASSLEY. So is there not more money available for the program than what we actually need?

Mr. CHAUHAN. Oh, yes. The point is that they cannot spend enough to keep up with the funding available.

Senator GRASSLEY. So that probably is an example of where there is no encouragement to keep things under control?

Mr. CHAUHAN. Yes, sir.

We always keep the appropriated funding ahead of the cost.

Senator GRASSLEY. Do you have a chart like that on the B-1?

Mr. CHAUHAN. Yes, sir.

Senator GRASSLEY. While you are getting that, let me ask you, do you think that they are going to be able to build 100 B-1 bombers for $20½ billion, like the firm fixed-price contract said they were going to be able to?

Mr. CHAUHAN. I will show you the chart, and from this, own prediction is that they definitely will not.

I seem to have lost the B-1 chart, Mr. Chairman. But it is in the briefing material. It followed the same trend. Let us look at this, another program, exhibit 8, that reflects the same problem.

This is offensive avionics, and here also, they got a fixed-price contract, and that is how the changes—one of the root problems here, were introduced one change, after another change, and the funding keeps increasing. There is always so much money available, and the incentive for a "good" program manager is to get these bucks, to get some more, and to make some changes, so you put it in the contract. If you do not put the money in the contract, then you have to return it to the Government, and there is hardly any money returned to the Government.

Senator GRASSLEY. Do your charts show a similar thing for the B-1?

Mr. CHAUHAN. Yes, sir; they did, Mr. Chairman, but I do not have them in my briefcase.

Senator GRASSLEY. OK; I would just want you to generalize them.

Mr. CHAUHAN. The B-1 has about 104 changes.

Senator GRASSLEY. Are those change orders?

Mr. CHAUHAN. Yes, sir. Which increases the contract price. There are some changes without any additional money, but there are some changes that have added additional money to the contract. And if we continue that trend the way I see, it is we can't complete the B-1 program for $20.5 billion. The program managers know that the taxpayer and the Congress—up to the timeframe to which this program stretches, a lot of Senators will go away, and some new ones will be there—will always come up with the money and once you get the contracts on the program, you really do not have much choice to cancel. You have to come up with some additional funds.

Right now, they are claiming they can build the B-1 for $20.5 billion. But in the timeframe we are looking at, 1984-88, the price will increase.

Senator GRASSLEY. Well, how come—you say that the contract adjustment will not be made?

Mr. CHAUHAN. It will be made.

Senator GRASSLEY. Well, I meant cancellations, et cetera.

You said these cancellations will not be made.

Mr. CHAUHAN. No, the changes will continue to be made, because that is the way we do business. Like this exhibit 7, on another contract on KC-135. You look at any contract, this is the trend that once we sign a contract the price keeps increasing. Exhibit 7 stayed pretty stable up to this time, and then of course this large jump indicates an increase in the purchase quantity, or something like that.

But these little ones, are the changes due to changes in performance requirements, and I think we keep dreaming up new changes all the time. That is one of the biggest problems.

Senator **Grassley**. You might want to go into some explanation of why the changes are made. I mean, I suppose there is some legitimacy to some engineering changes, but is there any other rationale for the changes? What purpose do the changes serve?

Do they give an excuse for increased cost, is that an end in itself?

Mr. **Chauhan**. Mr. Chairman, let me read the statement, and I will clarify it, if I can.

If you look at the charts which I have just displayed, you might conclude that the firm fixed price contract is a misnomer. It is perhaps more correctly price fixed between the buying activity and the company on a specific date, subject to changes on other dates, depending on how much money can be obtained from Congress.

Now, through numerous changes a contractor can inflate and augment the price of a contract, no matter how grossly underbid the original contract was. As I stated in the case of the Maverick missile, even though they were $20 million short of money, when they signed the change, their incurred costs became under contract price.

The standard Government procedure is to bail out any contractor who gets into trouble. How can cost overruns exist when thousands of changes are forthcoming? In light of all the changes submitted to and accepted by the Government, it must be stated for the record, Mr. Chairman, that for all practical purposes in most Government contracting, there is no such thing as a firm fixed price contract, only a "what the Congress will allow" contract. Thus, prospective contractors can cheerfully underbid, knowing that they can renegotiate and cost-plus their way to a healthy profit.

Another technique used is the over-and-above work. Now, I want to define that a little bit, Mr. Chairman. You probably know over-and-above is once you sign a basic contract, let us say, to inspect a car, anything else that needs to be done will be over-and-above. Like you want to adjust the brakes, or you want to change the front wheels, that will cost extra.

But then the mechanic calls you up, and tells you he opened up your car, and took it apart, and then tells you it is going to cost you another $1,500 to put it back together. So you really do not have much choice in that type of instance, because your engine is open, and you need the car the next day to drive around. So you pay what the contractor asks for.

I am citing here, Mr. Chairman, the example of the F-4 Programmed Depot Maintenance Program, there is 55 percent more work done on over-and-above, in addition to the basic contract. There are more than 2,000 inspection maintenance and repair records processed every month. Each IMMR carries hours associated with work, and is subject to negotiation. How much leverage can you have when your airplane is open, the flyaway deadline is approaching, and you must haggle over how many hours it should take to do the job? A better way to handle this would have been to negotiate a price associated with overhaul of each aircraft, and to have negotiated a firm fixed price. However, this over-and-above work is a handy loophole of the so-called firm fixed price contract. They can underbid anything they want, but they will make up the money in the over-and-above work.

They dictate the price. Even though we try in the field very hard to bring the price down. We really do not have much choice. If there is an impasse, we have to agree that the work needs to be done, as the pressure is to meet the flyaway deadline. The officers need to fly the airplane.

On the other hand, the contractor is in a comfortable position, so he can sit there and haggle over the price. So that is one of our main problems.

Another thing, contractors get what they want. Negotiation, pricing and fact-finding are largely formalities for the sake of appearance. When it comes right down to it, negotiated prices are what the contractor will accept if the Government wants to buy the product. They are not dictated by should-cost analysis, but by the amount of money the Government has to spend. Rarely is the Government able to come up with a should-cost figure and make it stick in negotiations.

Senator **Grassley**. Well, that is a tremendously sad situation you just described in that short paragraph.

> Negotiation, pricing and factfinding are largely formalities for the sake of appearance. When it comes right down to it, negotiated prices are what the contractor will accept if the government wants to buy the product. They are not dictated by should-cost analyses, but by the amount of money the government has to spend. Rarely is the government able to come up with a should-cost figure and make it stick in negotiations.

Mr. **Chauhan**. That is correct, Mr. Chairman.

Senator **Grassley**. And the lack of flow of information contributes to the inability to get should-cost figures.

Mr. **Chauhan**. Even if you get the should-cost figure, Mr. Chairman, the pressure is to negotiate the contract.

Now, you really do not have much choice when the program manager is pressuring you to negotiate the contract, because he will not let his program die, because you were not able to negotiate. All programs live, and that is the bad incentive in our system. The contractors know this and use it. For example, on the Hughes' Maverick Program, there was a should-cost study (and I think they kept the report pretty secret, but I came to know about it) that showed the should-cost price on this IIR Maverick missile was significantly lower, and Hughes was not going to go for it, so they kept the whole thing secret, and the Air Force came up with a new, higher should-cost price which would be acceptable to the Hughes Aircraft Co., rather than going to another contractor or letting us kill the program and develop another missile.

Senator **Grassley**. Could I ask you to wrap it up now?

Mr. **Chauhan**. Yes, sir.

Mr. Chairman, I want to make some recommendations for reducing this defense spending in half. I am suggesting that if you follow my recommended course of action, we can immediately reduce defense procurement spending by half, buy all the weapons systems we need and strengthen our industrial base. I will briefly summarize those points for your consideration. Appoint only qualified people as program managers, military or civilian; have competent program managers and staff remain throughout the life of the program to provide consistency; and define the requirement of a program very clearly. This is our biggest problem. As you saw, the jump in the firm fixed price contract and the numerous thousands of changes that have been coming forth, happen, because we did not define our requirements very clearly.

We go with something, an idea, and then we figure out that we are going to make it work in the future through the change process.

We pass legislation to disallow any money for contract changes, after a basic contract has been signed without the personal approval of a service Secretary.

We pass legislation to separate financial and management functions. Program managers should not control funding for the program. Funding should be controlled by an independent body reporting directly to the Secretary of the Air Force, or the services, as program managers often are vested in continuing the program regardless of cost.

All program reserve funds could be accumulated in one financial pool, and money be only released at the recommendation of the independent financial board. Right now each program has its own reserve financial pool and can access the funds any time.

What I am saying is, if the changes in the program are necessary, and justified, we should have to go to somebody other than the program managers, whose sole interest and survival is based on survival of the program. If the requests rational and reasonable, then the money should be released to make those changes in the program.

Terminate programs that become too costly. We have historically never, never terminated any program that I know of because it was too costly.

Follow my concepts of program management as illustrated in the charts of exhibits 1, 2, 3, 4, and 5. Mr. Chairman, I have presented these charts to our Commander at AFCMD and to the Air Staff, and the feedback I got was that the idea seems to work. This is very simple. In exhibit 1 you put input dollars on one side and then you buy the material and some parts. Then you incur manufacturing costs, direct manufacturing costs, engineering costs, and indirect and direct support and overhead costs and profit.

All these costs come in, and the output is the standard hours work content. Right now the way we do business, we do not know what our output is. We put in as much money as we can into the input, but even though we get something out, we really do not know how much we are getting out and what it is worth.

For this proposed system you take the input dollars, and subtract the cost of the material, and you wind up with the total labor cost. If you divide total labor costs by the output in standard hours, you have a cost-per-standard-hours work output.

Now, exhibit 2 is just a general illustration. The solid line represents the standard hours, and the dotted line represents the actual time. Exhibit 2 can be used for controlling the cost in manufacturing, and over there is a K factor, the efficiency factor, which is how many times the standard hours you are taking to do the job, and you should have some set goals, and track it from unit to unit on the program.

Now, in exhibit 3, Mr. Chairman, the biggest problem we have is the engineering hours per unit remaining consistently high.

Now, on lot No. 2, even after producing 1,584 units we are still being charged 375 engineering hours per unit although by this time in production engineering hours should be no more than 5 to 10 hours per unit. We unnecessarily maintain a big engineering force which introduces changes to maintain itself, otherwise the function terminates and fewer engineers are needed.

In exhibit 3, the engineering cost should have dropped once you have made a production decision and you have decided what you really want to buy. Then I think that some minor changes, which should be around 5 to 7 percent of total cost are valid. However, here we see in lot 5 beginning at 2,281 units, they are not only maintaining a big input, but are increasing in the number of hours that they are spending on the missile, or whatever they are making, rather than decreasing, as should be expected.

But my concept is we track this thing in relation to standard hours and then we have an idea how it should be going down, and this engineering unit hours line should be coming down, and we are able to predict, if it is not, there is a problem. The charts are made so that you should be able to predict the trend of the hours, and take corrective action.

So, if you are staying up, what are the reasons? Why are we using such a tremendous number of engineering hours on the floor, even though we have made a decision to go into production and the design is complete?

Senator **Grassley**. For clarification purposes, you are saying, we cannot predict?

Mr. **Chauhan**. No; we cannot.

Senator **Grassley**. But with your suggestion, we could predict?

Mr. **Chauhan**. If we have all the information, the unit standard, the requirement for them to account for the standard hours content, how long it takes them to build the hardware of one unit, and then a requirement in the contract for the company to track it, then we can predict cost and performance trends. The last time I talked to General Marsh, he indicated interest in this concept. I was told I would be contacted when he could fit me in his schedule, and I have not been able to brief him so far.

Our commander at AFCMD told me he likes it. It is my belief the only people who do not like it are the program managers, because it demands true responsibility. Currently, the system is so muddled that nobody, including program managers, can figure it out. My proposal places responsibility on the program managers to be responsible, and it provides this ability.

Senator **Grassley**. You keep using the phrase we have enough money. Do you mean the amount of money we have for a particular program is a measure of what ought to be spent and done by people that use that as an excuse?

Mr. CHAUHAN. No; the tragedy, finally, we get all the money we want. There is no——

Senator GRASSLEY. You mean that is common talk around people that work with you?

Mr. CHAUHAN. Yes, sir.

Senator GRASSLEY. That we have plenty of money?

Mr. CHAUHAN. Yes, sir, and the idea and the concept is that we can always get more.

Senator GRASSLEY. Congress is not careful enough in how much money we appropriate?

Mr. CHAUHAN. I do not think, Mr. Chairman, that the Congress truly understands what is going on. We present to you a fat budget, then you go through some subcommittee meetings, and you cut, 5 or 10 percent. We already have that much built in fat, in anticipation you are going to cut it. So we get the money we want anyway.

Senator GRASSLEY. I think that that makes a point of the hearing today, and Monday, that access to that information would help us then ferret out, and make a more certain decision, closer to the amount of money that is really needed.

Mr. CHAUHAN. I think that it is the custom for Congress to approve the DOD budget, on the recommendation of and with information provided by the Pentagon. Mr. Chairman, I am for strong defense, and I want to buy all the systems that we need, but I think we can buy those systems immediately with half the amount that has been allocated in the budget at this point in time if my recommendations are implemented.

Now, exhibit 5 is using the same concept to track total costs. This exhibit shows overhead per unit on the basis of fabrication assembly, inspection, and tests in relation to engineering and materials unit costs. It displays everything. The cost in engineering, material, overhead and fabrication assembly have a relation to one another I think it provides excellent visibility which is why I have a feeling that the contractors do not like it. The visibility makes them responsible. And the program managers do not like it because the visibility makes them responsible. Mr. Chairman, neither contractors nor DOD management like that Congress will be able to understand something like this when it is presented to them. Charts such as these clarify rather than obfuscate. Congress will be able to understand these charts easily.

Senator GRASSLEY. If we were to do what you said, cut the procurement budget in half——

Mr. CHAUHAN. Yes, sir.

Senator GRASSLEY. You are saying we should get just as much as we are getting now?

Mr. CHAUHAN. Just as much, and better quality and better accountability.

Senator GRASSLEY. And how much will that save in billions of dollars?

Mr. CHAUHAN. $50 billion, to the taxpayers. We will get better quality, because right now, through the change mechanism, Mr. Chairman, we keep messing up the system. You cannot really maintain these systems. These systems have thousands and thousands of changes. The people in the field, they are just technicians, they do not understand all of this. So we have a hard time trying to keep up with the changes.

What I am saying, if you implement all of my recommendations, you can reduce the defense procurement budget by $50 billion and buy yourself better weapons systems, thus strengthening our national defense.

Senator GRASSLEY. OK. You are done?

Mr. CHAUHAN. Yes, sir.

Senator GRASSLEY. I have just three questions in closing, because you have been interrupted so many times, most of my questions have been answered.

The official Air Force words are that you and Ernest Fitzgerald do not represent the Air Force policy. That is rather obvious, I think. They probably do not need to tell us that. But how is your work and that of Mr. Fitzgerald accepted by the Air Force community out in the field?

Mr. CHAUHAN. Mr. Chairman, I personally feel that 95 percent of the people in the field share my views. The other 5 percent are in the management, and if they search their own conscience and disregard their official titles, and look at my suggestions and recommendations carefully, I think we will have 100 percent.

I also state, Mr. Chairman, for the record, that my views are shared by the majority of the people in the street, also.

Senator GRASSLEY. I would like to have you submit for the record all relevant information about your job efficiency ratings, and things that are connected therewith, and I would also like to have you tell us how you have been rated as a civil servant.

Mr. CHAUHAN. Well, Mr. Chairman, I used to be rated an outstanding or excellent civil servant, but since I started questioning, I began to flunk, and I flunked in five different areas. Mr. Chairman, if given a fair chance, I am the kind of person who does not flunk.

[The following was received for the record:]

Om

GENERAL MANAGER PERFORMANCE APPRAISAL

PART I - INFORMATION

EMPLOYEE *(Last name, first name, middle initial)* Chauhan, Ompal S.	SSAN 436-78-3513	GRADE GM-13	JOB SERIES 0896

POSITION TITLE Chief,Manufacturing Assessment Branch	ORGANIZATION Det 34 AFPRO	OFFICE SYMBOL PDP

REASON FOR APPRAISAL

☐ CHG OF SUPERVISOR ☒ CHG OF POSITION ☐ ANNUAL ☐ OTHER *(Specify)*

(Quarterly Performance Evaluation)

PERIOD OF APPRAISAL

FROM 2 Jan 1984 TO 13 Apr 1984

MERIT PAY UNIT IDENTIFICATION *(AS SPECIFIED BY AFR 40-540)*

NUMBER OF PERSONNEL THIS EMPLOYEE DIRECTLY SUPERVISES: MILITARY ( ) CIVILIAN (5)

As indicated in 5 USC 4302 (The Civil Service Reform Act of 1978 - CSRA), the supervisor should encourage the employee to participate in the determination of the job performance elements to be entered in part II and the performance standards entered in part III. Job performance elements must reflect the actual work to be performed and the standards must be written at a level which reflects satisfactory performance.

Job performance elements may be written using either the line entry method or the functional category method. The line entry method requires that an element be written as a one or two-line phrase. The functional category method may be used when a number of subelements can be clustered under a heading such as administration, communication, directing, evaluating, planning, etc. Some sources for determining logical functional categories are: classification standards, Supervisory Grade Evaluation Guide, job analysis reports and other documents used in work measurement, and qualification guides. If functional categories are used, the subelements may be recorded using either a paragraph or listing format.

Where applicable, work plans must reflect job performance elements that address personnel management responsibilities, such as completing work plans for subordinates and meeting EEO affirmative action goals.

Performance standards are written to reflect a requirement for a satisfactory level of accomplishment. At least one performance standard must be written for each job performance element or subelement regardless of the method used to define the element.

A relative weight of importance (percentage of total job) must be specified for each job performance element. The total percentage must equal 100%. A majority of the job performance elements in terms of relative weight (at least 51%) must be identified as critical elements.

The supervisor will rate each performance element (functional category or line entry) by checking the appropriate block; did not meet, met, or exceeded.

Use plain bond paper to record changes or additions to job performance elements or standards if space is not available on the appraisal form.

OVERALL RATING SCALE

SUPERIOR: Employee exceeds the requirements of all of the elements of the work plan.

EXCELLENT: Employee meets the requirements of all of the elements of the work plan and exceeds the requirements for elements which represent at least 50 percent of the relative weight of the work plan.

FULLY SUCCESSFUL: Employee meets the requirements of all of the elements of the work plan.

MINIMALLY ACCEPTABLE: Employee does not meet the requirements of one or more non-critical elements of the work plan, but meets the requirements for all critical elements.

UNACCEPTABLE: Employee does not meet the requirements of one or more critical elements of the work plan.

SUPERVISOR *(Rating Official)*

The job performance elements and performance standards developed in this work plan are a result of a job analysis using all available source material including a thorough review of the current position description and any oral or written input from the employee.

DATE 2 January 1984	NAME, GRADE, DUTY TITLE BRYANT ROBINSON, GM-13, Chief, Manufacturing Operations Div	SIGNATURE Bryant Robinson

REVIEWING OFFICIAL

DATE 1/26/84.	NAME, GRADE, DUTY TITLE FRANCIS E. FALBO, Colonel, USAF Commander	SIGNATURE Francis E Falbo

EMPLOYEE

COPY RECEIVED. SIGNATURE DOES NOT INDICATE EMPLOYEE AGREEMENT OR DISAGREEMENT WITH THE WORK PLAN.

DATE 1/25/84 -	EMPLOYEE SIGNATURE Ompal S - Chauhan -

AF FORM 1281

Continuation of Part IV of AF Form 1281, "General Manager Performance Appraisal"

CHAUHAN, OMPAL S.

(A) Improve on tact and diplomacy while working with individuals, within his own organization, other divisions and visiting agencies.

(B) Improve on organization study; i.e., review and evaluate the hours expended by his subordinates and keep records so as to know the output of each individual and be able to identify the deficiencies.

(C) Improve on accurate, auditable, records of management to provide sufficient evidence to inspection teams (CEAT, IG, etc.) that his supervisory techniques are satisfactory.

PART II - JOB PERFORMANCE ELEMENTS

(NUMBER EACH JOB PERFORMANCE ELEMENT)	Critical	Non-Critical	Relative Weight	Did not meet	Met	ceeded
A. PERSONNEL MANAGEMENT						
(1) Develops and implements written training/development plans for subordinates.	X		10	✓		
(2) Evaluates performance of subordinates.		X	7	✓		
(3) Ensures a continuing application of AF policies concerning EEO.		X	5		✓	
(4) Plans and organizes workload to fully utilize assigned personnel.	X		10	✓		
B. ADMINISTRATIVE MANAGEMENT						
(1) Manages CMSEP.	X		8		✓	
(2) Manages workload to achieve objectives emphasized by the performance indicators.	X		8	✓		
C. COMMUNICATIONS						
(1) Advise supervisor on pertinent matters.	X		8		✓	
(2) Respond to management.	X		8		✓	
(3) Conduct branch meetings.		X	3		✓	
(4) Prepare management data for submission through the Division Chief to higher authority IAW established procedures.	X		8	✓		
D. TECHNICAL/FUNCTIONAL MANAGEMENT						
(1) Performs assigned or delegated PDP functions under DAR 1-406(c) and AFCMDR 84-1.	X		8		✓	
(2) Reviews and evaluates changes in production methods and processes.		X	3		✓	
(3) Provides support to buying activities per MOAs and delegations as required.	X		5		✓	
(4) Assures that assigned Pre-Award Surveys, self inspection audits and zone evaluations are properly conducted within the time schedule specified.	X		4		✓	
(5) Investigates and solves technical problems in support of other divisions or within the contractor's organization. Provides support for review and evaluation of ECPs, cost proposals and CMP.	X		5	✓		

PART III - PERFORMANCE STANDARDS

(NUMBER EACH PERFORMANCE STANDARD TO CORRESPOND WITH THE JOB PERFORMANCE ELEMENT IN PART II.)

A. PERSONNEL MANAGEMENT

(1) Completes/updates an individual training or career development plan for each employee. Provides on and off-the-job training (including cross-training) and identifies development opportunities. Encourages/recognizes self-development effort through oral and/or wirtten communications. Complies with training documentation requirements in accordance with policy/regulatory requirements and documents all training in AF Form 971 file.

(2) Prepares meaningful performance standards and appraisals in a timely manner. Recognizes the varying degrees of performance among employees through differences in the appraisals. Documents timely actions to advise employees of appraisals, to communicate needs for employee improvements, and to appropriately record data in AF Form 971 file.

(3) Participates through active involvement and documents actions to comply with program requirements. Leads as an example that instills a positive attitude for the program among all managed employees.

(4) Manages a timely and comprehensive implementation of the program throughout the assigned branch. Responsible for the branch's documentation that demonstrates penetrating assessments and action to correct deficiencies. Validates travel needs and counsels travelers to assure achievement of the trip's objective. Manages the use of ADP resources.

(1), (2), (3), and (4): One failure per year is acceptable.

B. ADMINISTRATIVE MANAGEMENT

(1) Organizes and technically guides program to assure correct format, content and color designations for assigned CQs. Responsible for reviewing, maintaining schedule and for assuring that documentation supports the assigned color codes. Submits fully substantiated folders to management for their review.

(2) Manages to assure achievement of the detachment management goals in the functional area. Uses actual direct manhours from personnel time sheets and other data to initiate appropriate action to improve operational effectiveness. Documents management decisions and actions taken to correct deficiencies. Budgets workload for personnel to improve efficiency of branch.

(1), (2): One failure per year is acceptable.

C. COMMUNICATION

(1) Provides timely information that is technically correct and sufficiently researched to be of use to management.

(2) Assures that responses are timely, accurate, and fulfills management's request. Fulfills suspense requirements imposed by management and requests new suspense dates if it is anticipated that the management imposed dates may not be fulfilled.

(3) Chairs meetings with subordinates at the frequency prescribed by management. Maintains dialogue with all subordinates and assures that their views are communicated to management and vice versa.

(4) Manages the submission of accurate, timely, and responsive management data that reflects completed staff work. Submits reports or data on or before the suspense date. Accepts personal responsibility for the accuracy of information submitted.

(1), (2) & (3): One failure per year is acceptable. (4) One failure per year is acceptable; one repeat failure per year is unacceptable.

D. TECHNICAL/FUNCTIONAL MANAGEMENT

(1) Delegates assigned tasks and provides necessary guidance. Assures satisfactory performance by subordinates of all assigned DAR 1-406(c) functions and AFCMDR 84-1 tasks.

(2) Maintains written record of any changes in current methods and processes. Evaluates and reports any impact to any affected contract.

(3) Delegates tasks assigned by MOAs to subordinates and assures satisfactory accomplishment of these tasks. Effectively enhances the ability of the buying activities and AFPRO in managing their contracts and programs.

(1), (2), & (3): One failure per year is acceptable.

Chauhan, Ompal S.

Continuation of Page 3, AF Form 1281

(4) Delegates responsibility and provides guidance. Assists contracting officers in the determination of a contractor capability to perform. Assures Pre-Award Surveys are satisfactorily completed on schedule.

(5) Investigates and analyzes all producibility problems with the contractor and documents results of these investigations for higher management review, with aim toward resolution of producibility problems. Assigns evaluation of cost proposals and ECPs to subordinates and maintains records of their receipt and processing. Supports cost monitoring program. Evaluates resulting input, assuring timely evaluation of cost proposals, cost reviews and ECPs by subordinates.

(54)

PART IV · SUBSTANTIATION AND OVERALL PERFORMANCE RATING

SUBSTANTIATION: COMMENTS ARE REQUIRED ON ALL JOB PERFORMANCE ELEMENTS (JPES). REFER TO JPE BY NUMBER. E.G., JPE 4. A NARRATIVE DESCRIPTION OF THE GENERAL MANAGER'S PERFORMANCE ON THOSE ELEMENTS CHECKED "EXCEEDED" AND "DID NOT MEET" IN PART II IS REQUIRED TO SUBSTANTIATE SUCH FINDINGS. THE COMMENT, "EMPLOYEE MET ALL REQUIREMENTS", IS SUFFICIENT WHEN "MET" IS CHECKED FOR ALL JPES.

A. PERSONNEL MANAGEMENT

(1), (2) Did not satisfactorily meet the requirements of this standard. JPAS forms were not completed on time. No plans for subordinates were developed especially new persons coming on board. CMSEP folders are not reviewed for critical format, etc.
(3) Employee met all requirements.
(4) No schedule boards or visible implementation of organizing workloads to quickly obtain amount of each individuals workloads for management purposes. Does not adequately assess the Branch's inadequacies through close review of the internal work measurement hours in order to adjust work load emphasis accordingly.

B. ADMINISTRATIVE MANAGEMENT

(1) Employee met all requirements.
(2) Assessment of personnel time sheets not accomplished as revealed by lack of documented evidence. No evidence of workload budgeting for personnel efficiency.

C. COMMUNICATIONS

(1) Employee met all requirements
(2) Employee met all requirements
(3) Employee met all requirements
(4) Data has not been timely to meet suspenses in earlier months. Missed the acceptance criteria. Discussions were held and suspenses have improved. Accuracy of data has not been satisfactory more than once. Backup data to insure data submittal not always available.

D. TECHNICAL/FUNCTIONAL MANAGEMENT

(1) Employee met all requirements
(2) Employee met all requirements
(3) Employee met all requirements
(4) Employee met all requirements
(5) Does not evaluate adequately the resulting output of tech evaluations. Must review each written evaluation to insure adequacy for pricing review. Needs to work closely with pricing branch for coordination in all areas of tech evals.

ADDITIONAL COMMENTS:

Mr. Chauhan's performance using technical knowledge has been satisfactory; however, he is lacking in his performance as a manager. Mr. Chauhan needs to concentrate heavily on the management of the individual.
(Continued on attached sheet.)

OVERALL PERFORMANCE RATING

THE OVERALL PERFORMANCE RATING (*as described in the rating scale in Part II*) IS BASED UPON THE EMPLOYEE'S PERFORMANCE IN MEETING THE REQUIREMENTS OF THE JPES.

☐ SUPERIOR ☐ EXCELLENT ☐ FULLY SUCCESSFUL ☐ MINIMALLY ACCEPTABLE ☐ UNACCEPTABLE

SUPERVISOR (*Rating Official*) SIGNATURE Bryant Robinson DATE 19 April 1984

REVIEWING OFFICIAL SIGNATURE Francis E Falls DATE 4/24/84

RECEIPT ACKNOWLEDGED. SIGNATURE DOES NOT INDICATE EMPLOYEE AGREEMENT OR DISAGREEMENT.

EMPLOYEE SIGNATURE DATE 4-24-84

U.S. Government Printing Office: [illegible]

Senator GRASSLEY. Previous to this type of work that you are doing now, you actually had job analysis by superiors that showed excellent?

Mr. CHAUHAN. Yes, sir.

Senator GRASSLEY. You did not say so, but you are implying that there is a relationship between the type of work you are doing now and a lower rating, specifically to discourage you from doing what you are doing?

Mr. CHAUHAN. Yes, sir. I am on probation right now, because when I transferred from Headquarters Albuquerque to Wichita, KS, I was placed on a supervisory probation, because of the civil service requirements. There is nothing wrong with that if you do it fairly, but they are using that probationary period to put pressure on me. They have written several socalled management by objectives for me, about which I wrote them back that some of them did not even meet management-by-objective criteria. They have tried various techniques, until finally they came and told me that you really are not doing the job well, in my appraisal. I have flunked in five critical areas, and if I do not make it, the implication is, I have no appeal rights because I am on probation, and must return to my original job, or accept an equal job elsewhere at their discretion.

Senator GRASSLEY. I am sorry for the situation. I want to go on to another point.

Mr. Fitzgerald testified that he had difficulty getting detailed information on the double IR Maverick should-cost. Do you have any knowledge of why such information would be withheld?

Mr. CHAUHAN. Yes, Mr. Chairman. It was because the should-cost figures, about which they were very secretive was significantly lower than what Hughes would want to negotiate. The people that did the should-cost, I talked to them, worked for the headquarters, and they said if they gave it to Mr. Fitzgerald, they would never be able to negotiate the contract. Therefore, they made few copies of this report, and gave it to Hughes, and kept it at the top secret level, and they came up with a figure that would be approximately what Hughes would be able to agree.

Senator GRASSLEY. OK.

Well, I would like to thank you, Mr. Chauhan, for your courage in coming forth and testifying, despite the many pressures to do otherwise. I would like to commend you for your excellent work and persistence in helping to surface some of the problems we all know are still with us. I hope we can continue making progress in bringing these problems to the public's attention, so that we can have a better chance of implementing some of the recommendations which you and others have offered.

I would also like to invite you to participate in a seminar that I announced Monday, in regard to asking Ernest Fitzgerald to testify, a seminar on should-cost. This will be Friday morning at 10 o'clock in this room. It is for the benefit of the public, the Congress, and the business community.

It is my hope that through an extensive education process, the problems you have described will be better understood, and understanding them is a necessary forerunner to correcting them.

Would you agree to participate in that program?

Mr. CHAUHAN. Yes, Mr. Chairman, I would.

Senator GRASSLEY. OK.

Then in closing, I would like to reemphasize, and reinforce that United States Code title 18, sec. 1505 makes it a criminal offense to retaliate against testimony by any congressional witness.

Thank you, Mr. Chauhan.

Mr. CHAUHAN. Thank you, Mr. Chairman. It has been a privilege.

Senator GRASSLEY. I would now like to go to Mr. Conahan, and I hope I pronounced that right.

Before you begin your testimony, Mr. Conahan, I would like to acknowledge publicly the excellent work you and your staff have done on the defense budget, and the general area of what information the Congress gets versus what we really ought to get, and what we need to have.

The principal reason we requested your testimony was for insight into some of the problems that have surfaced in these hearings. Not only are these problems of access to information, but these problems are being ignored by those who oversee the system.

We have heard contradictions between what the system is supposed to do, and what it actually does. The secret to understanding this contradiction, I believe, lies in the understanding of the incentive structure of the bureaucracy.

I hope you will be able to give us the benefit of your insight on these problems, either during or after your prepared remarks, and I would like to have you introduce your colleagues that you have with you at the table, if you would.

STATEMENT OF FRANK C. CONAHAN, DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY DONALD DAY, SENIOR ASSOCIATE DIRECTOR; JOHN CARTER; AND WILLIAM CROCKER

Mr. CONAHAN. Thank you very much, Mr. Chairman.

Senator GRASSLEY. And did I pronounce your name right?

Mr. CONAHAN. Conahan. I think you pronounced it correctly, thank you.

I should like to start by saying that I, as you well know, am not here under subpoena, but I am here freely representing the General Accounting Office, and will speak on behalf of the organization.

Senator GRASSLEY. Yes; and I would like to thank the General Accounting Office, and your superiors, for making it easier for Congress to get this information. Thank you for testifying, and actually helping us, as opposed to other bureaucracies that sometimes put roadblocks in the way of trying to get necessary information.

So, you know, it is not the ironic situation that we had previous, when a very hearing on the subject of flow of information to Congress was stymied by a stoppage of flows of information to Congress.

Proceed.

Mr. CONAHAN. Yes, sir.

On my right is Don Day, who is the Senior Associate Director in the Office, and has long been associated with our weapons systems work. On my immediate left is John Carter, and then further on, Bill Crocker, both of whom have been associated with some of the specific studies that we will talk about today.

And in that connection, Mr Chairman, I would like to talk today about cost growth, DOD's cost estimating and reporting, the underestimation of funding requirements in the 5 year defense programs, and organizational incentives for developing optimistic cost estimates.

Mr. Chairman, I have a 20 page statement here, including some charts, which I would like to submit for the record, and then just orally present an abbreviated version.

Senator GRASSLEY. We will print the entire printed version, and if the charts are necessary to the testimony, they will also be printed.

[The following was received for the record:]

STATEMENT OF FRANK C. CONAHAN, DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION
U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommitee:

I am pleased to be here today to discuss the need for credible reporting of planned and actual costs. I will be talking about cost growth, the Department of Defense's (DOD's) cost estimating and reporting, the underestimation of funding requirements in the Five-Year Defense Programs (FYDP's), and organizational incentives for developing optimistic cost estimates.

Before getting further into my testimony, let me give you some basic background information that illustrates cost growth trends. Charts 1 and 2 compare the current estimates of total program cost with initial and development estimates for weapon systems included in the selected acquisition reporting system with systems which are not included on Selected Acquisition Reports (SARs). Charts 3 and 4 present information on generic types of weapon systems, that is, land vehicles, missiles, and aircraft. You can see from these charts that the weapon program cost estimates grow substantially as the program progresses.

On balance today's military weapon systems acquisition process is characterized by programs which are extended, exceed original cost estimates, and encompass fewer units than originally planned. DOD attributes most cost growth to quantity increases to fill original objectives or new requirements and inflation. We do not disagree that these two factors are significant contributors, but we would add that overoptimism in cost estimating transcends all the reasons cited by DOD for cost growth and, therefore, is the principal contributor to underestimates.

I will now proceed with the focus of the testimony and hopefully some suggestions we make today for improving the cost estimating and reporting processes will assist this Committee.

REPORTING

DOD's cost reports to the Congress need to be improved. Cost estimates are reported to the Congress through the SARs, unit cost exception reports, and the budget process. SARs are reports that present a comparison between DOD's current estimate, which should reflect the total acquisition cost of the latest approved program, and the development estimate, which reflects the baseline established when the program entered the full-scale engineering development phase of acquisition. The unit cost report focuses on weapon systems unit cost increases and must be submitted to the Congress when certain thresholds are breached.

Major concerns have been expressed by the Congress and its oversight committees for some time over the accuracy, timeliness, and completeness of DOD's reporting. We recently completed an in-depth review of the DOD cost estimating process on seven selected weapon systems. Our report was released on May 24, 1984. We found that (1) SARs do not always reflect the latest anticipated program acquisition costs, (2) SARs do not always show total planned acquisition objectives, (3) important cost categories are not always reported in SARS, (4) costs are not always reported consistently in SARs, and (5) unit cost exception reports have not fully resolved the problem of the lack of current data reported to the Congress.

It is also difficult to compare the information in SARs with that in other budgeting and accounting reports provided to the Congress. A few examples illustrate some of these problems:

--The B-1 bomber baseline SAR estimate excludes certain costs, such as $300 million for flight simulators for pilot training, normally included in aircraft estimates.

--SARs do not include ammunition costs unless the ammunition is unique to a specific weapon system. This reduces comparability of the cost estimates for various systems.

--According to the Congressional Budget Office, cost estimates for some 13 systems in the December 1982 SAR excluded at least $40.8 billion in program costs reported elsewhere to the Congress.

In times of constrained resources it is more important than ever that the Congress and executive branch officials have the information they need to ensure that resources are being spent effectively and efficiently. Management and project reports, such as SARs, should be designed to ensure that program objectives are achieved and costs controlled. These reports must be timely, useful, and readily understood. Government financial systems should be designed to provide that information. Yet today's financial systems--not only in DOD, but throughout government--provide little of the reliable cost data essential to effectively monitor program execution, anticipate overruns, and provide a basis for future program and budget planning.

All too frequently, the results are the types of problems discussed here today--cost estimates which are unreliable, inconsistencies between budget requests and accounting reports, and an inability to compare planned budgets with actual costs and results. These problems exist in large part because DOD and other departments and agencies generally do not budget and account on the same basis. The absence of a consistent basis for reporting costs makes it difficult, if not impossible, to compare the costs of similar activities in the government.

An integrated financial system that budgeted and planned on the same basis could produce accurate, comparable, and readily understandable management reports, such as the sample project report below.

A Sample Project Report
Construction Of A Strategic Missile Submarine

Project Status As of 10/3/83

Phases	*Planned Cost*	*Actual Cost To Date*	*Estimate to Complete*	*Total Cost to Complete*	*Increase (+) Decrease (–) From Plan*	*Months Under (–) Over (+)*
Research and Development	16	20	0	20	+4	+2
Testing and Evaluation	4	3	0	3	–1	
Design	10	11	0	11	+1	+1
Procurement	70	10	65	75	+5	+2
	100	44	65	109	+9	

Funding Status As of 10/3/83

Appropriation				*Obligations*	
Number	*Description*	*Date*	*Amount*	*Amount*	*Unobligated*
XXXX	*Research and Development Testing and Evaluation (FY 82)*	10/81	20	20	0
XXXX	*Research and Development Testing and Evaluation (FY 82 Supplemental)*	2/82	3	3	0
XXXX	*Shipbuilding and Conversion (FY 83)*	10/82	10	10	0
XXXX	*Shipbuilding and Conversion (FY 83 Supplemental)*	4/83	1	1	0
XXXX	*Shipbuilding and Conversion (FY 84)*	10/83	70	35	35
	Totals		104	69	35
	Current Estimate		109		
	Increase (+) *Decrease (–)*		-5		

This allows both managers and the Congress to quickly determine the:

- --differences between actual cost and planned cost;
- --defined project phases, such as research and development;
- --estimated resources needed to complete the project;
- --estimated cost of those resources for each phase of the project;
- --expected start and completion date, or milestone, for each phase;
- --funding sources for the project (which may come from several appropriations).

As the project progresses, it is possible, using such reports, to determine if the project is on schedule, within budget, and requires additional resources to complete.

We believe it is time for a major overhaul of financial management systems government-wide. An integrated financial system that planned, budgeted, and accounted on the same basis could produce accurate, comparable, and readily understandable management reports on programs, organizations, and projects to support both management and congressional decisionmaking. The benefits of such a system include

- --the ability to compare planned with actual program and project costs,

- --the ability to compare the costs of similar operations across the government,

- --more accurate budget estimates based on actual past program and project costs,

—the ability to measure the input of cost and the output of performance, and

—increased accountability for the management of public funds.

Our assessment of the problems and our ideas on how we might proceed are discussed much more extensively in a two volume report currently in draft form. We hope this report will stimulate widespread discussion of these issues, leading to the consensus which will be needed if reform is to be successful.

DOD COST ESTIMATING

In our review of DOD's cost estimating process, we determined that DOD could have improved its cost estimating and reporting on the systems we reviewed by (1) improving its cost estimating guidance and basic data used for estimating, and ensuring stricter implementation of the guidance, (2) introducing more realism into the assumptions and methodologies used, and (3) making fuller use of the recommendations of its independent estimating groups. We found that DOD's reports to the Congress need improvement and that DOD and the services have efforts underway to address some cost estimating issues.

DOD needs to clarify its cost estimating guidance and resolve conflicts in the guidance. We found conflicts between definitions, instructions, and guidance issued by the Office of the Secretary of Defense (OSD) and the services.

Improved guidance without strict implementation would be of little value. In addition to improving its guidance, DOD should ensure its implementation. Examples drawn from our sample weapon systems illustrate the problems of inconsistent estimate structure and inadequate estimate documentation--which would show how an estimate was developed--that result from poor implementation of existing DOD cost estimating guidance.

DOD must ensure its estimates are based on accurate data. Estimates are often based on contractor data that is sometimes overly optimistic. According to authors outside GAO this use of optimistic estimates results from an environment within the DOD community that pushes contractors, and those within DOD, to "sell" a program to the services and to the Congress. This is done by presenting an optimistic estimate to put the program in a favorable light.

Realistic assumptions and sound methodologies are essential ingredients to good estimates. Improvements are needed in the consistency of inflation recognition and recognition of program risk.

DOD does not recognize inflation consistently. In some cases we found contractor inflation indexes were used to calculate inflation, and in others inflation was used as a device to hide other cost increases.

Cost estimates, whether done independently or by the program office, must be based on realistic assumptions, rather than the optimistic assumptions sometimes favored by DOD management. We found that cost estimators were instructed to use optimistic assumptions related to contractor profit, the construction schedule, and allowances for uncertainties. DOD has sometimes decreased its cost estimates to fit within the fiscal constraints of the service budgets, and has excluded relevant program costs from its estimates.

We also found that cost estimators base their estimates on the information available to them at the time, and assume that the system they are estimating will not experience typical changes in scheduling, funding, engineering, or the threat. Rather than assuming these changes will not occur, estimators should identify these changes, determine their probability, and increase the amount of their estimate by the probable magnitude of the changes.

Although OSD and the services have established independent cost estimating groups to help ensure that cost estimates are more reliable and valid, efforts by such groups have not always been effective. Independent cost estimators' recommendations to recognize increased program cost were sometimes not accepted by DOD decisionmakers, and those recommendations were validated as program costs increased over the life of the weapon system.

OSD and the services recognize the need to improve their cost estimating process, and as a result, they are continually taking steps to improve this capability. OSD, the Air Force, Navy, and Army each have efforts underway to improve their cost estimating practices. If implemented fully, these efforts should improve some of the weaknesses in DOD's cost estimating and reporting. For example, the Army has initiated an effort to incorporate in its estimates funding for technological risk for the early years of production, known as Total Risk Assessing Cost Estimate for Production (TRACE-P). This concept involves identifying and quantifying risks when a weapon system transitions from development to production, submitting the risk cost with the program estimate, and reserving funds to cover the expected cost of the uncertainty. This effort should result in more realistic cost estimates being developed in the Army and reported to the Congress.

In addition to the efforts underway in DOD, we believe improved guidance, use of more realistic assumptions and estimating methodologies, and continued emphasis on the value of independent cost estimates would go far in improving the estimating process and in turn, the quality of information provided to decisionmakers. Our report contains detailed recommendations designed to assist DOD.

UNDERCOSTING THE FYDP

Historical data shows that DOD's FYDPs are consistently undercosted. The dramatic increases in the defense program since 1980 and the perception that the cost of these huge increases may continue to be significantly understated has become a serious concern to the Congress. I will highlight for the committee the findings and conclusions of our recently completed assessment of the undercosting problem, giving particular attention to the procurement of major weapon systems.

As I stated at the outset, a major contributing factor to undercosting is bias in DOD cost estimating practices which encourage optimistic cost assumptions, while excluding actual cost experience and the reality of the budgeting environment.

In analyzing the planned weapon systems cost versus actual total obligational authority provided for 97 major weapon systems during the course of FYDPs for 1963 to 1983, we found that the Congress must grant an average of 32 percent more obligational authority in an effort to execute the plans. Even with the additional funding, the number of weapon systems which DOD is actually able to procure is less than anticipated.

Although Congress appropriated more than expected for these systems, DOD has been unable to purchase the planned quantities since 1970.

The dotted line in chart 5 represents the approximate amount of additional funding that would have been required to purchase the planned procurement quantities. In the dotted line, the actual cost is multiplied times the planned number of weapons systems. Since 1970, this pattern of receiving more money and purchasing fewer quantities has gotten progressively worse. As long as historical trends continue, Congress is likely to appropriate more current dollars and realize fewer quantities than proposed in Five Year Defense Plans for major weapon systems.

The gap between FYDP projected costs and actual costs has been growing. As a result, a cost growth wedge can be seen between the FYDP estimate (dashed line) and the Full Procurement Requirement (dotted line).

Both lines are based on the FYDP planned weapon system quantities. In the dashed line, the FYDP's estimated unit costs is multiplied times the planned quantities. The lines diverge because the actual costs exceed the planned costs.

COST ESTIMATING INCENTIVES

One aspect of the cost estimating problem involves the motivations within DOD for presenting optimistic estimates. Reports and articles written by authors outside of GAO state that DOD cost estimates are done in an atmosphere of optimism. A former Under Secretary of the Army stated in an article entitled Liar's Dice,

> "[Contractors] know their . . . proposal[s] are to be made to a set of people who have every incentive to believe an overoptimistic, barely credible technical, schedule, and cost commitment, and who have a reputation for rejecting conservative offerings."

An Air Force study indicates that cost estimators are provided organizational motivation to develop an estimate that can be used to advocate the new weapon system to DOD and the Congress. According to a Congressional Research Service report, DOD officials recognize that it is widely acknowledged that program costs are often purposely underestimated either because the contractors are lowering their cost estimates to win a contract with hopes of recovering costs on follow-on contracts (a practice known as "buying-in") or because DOD is forcing a program to fit available funding rather than providing the funding it takes to do the job.

When estimators are encouraged to use optimistic assumptions regarding system design requirements, number of units, length of time for procurement, financial considerations regarding contractors, and so forth, it results in an overly optimistic estimate of what the system could cost if the acquisition strategy goes perfectly. However, history shows that system acquisitions rarely go according to plan--a myriad of influences determine their ultimate cost and performance. These influences have resulted in systems exceeding original and revised cost estimates.

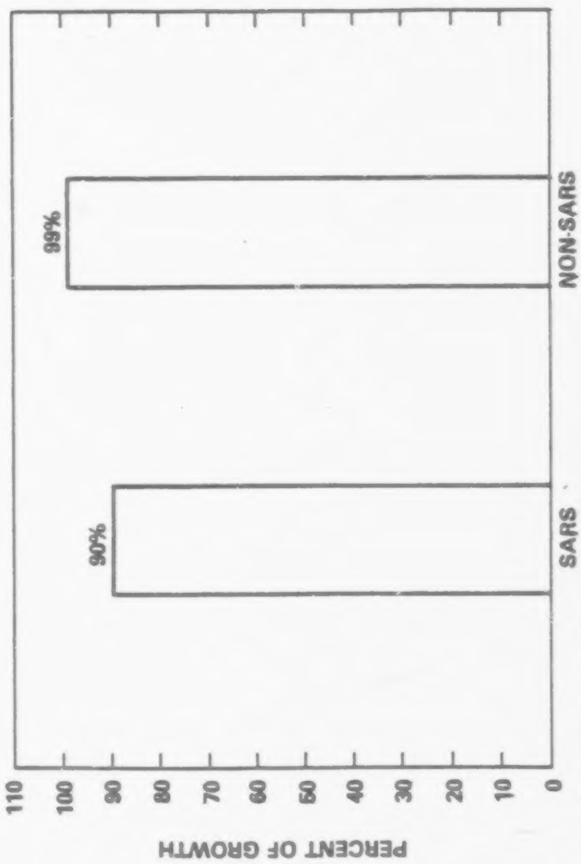
One example from our May 24, 1984, cost estimating report illustrates that this problem sometimes involves the direction provided to cost estimators by DOD management.

On March 22, 1982, the Assistant Secretary of the Navy for Shipbuilding and Logistics issued guidance that the ship construction budget for fiscal year 1984 be repriced using less conservative estimating assumptions to produce a more optimistic estimate. The Assistant Secretary stated that high estimates were a self-fulfilling prophecy--estimates should be kept low to force constraints on contractors. The guidelines of the March 22 memorandum were not implemented, but the Navy did develop more optimistic estimating assumptions. These assumptions were incorporated in the April 9 guidelines used in the subsequent repricing of, and attendent $2.7 billion reduction in, the Navy's Five-Year Shipbuilding Plan.

Mr. Chairman, that concludes my prepared statement. I will be pleased to answer any questions you or your committee may have.

CHART NUMBER 1

INITIAL ESTIMATES COMPARISON OF SAR/NON-SAR COST GROWTH RATE AS OF SEPTEMBER 30, 1983

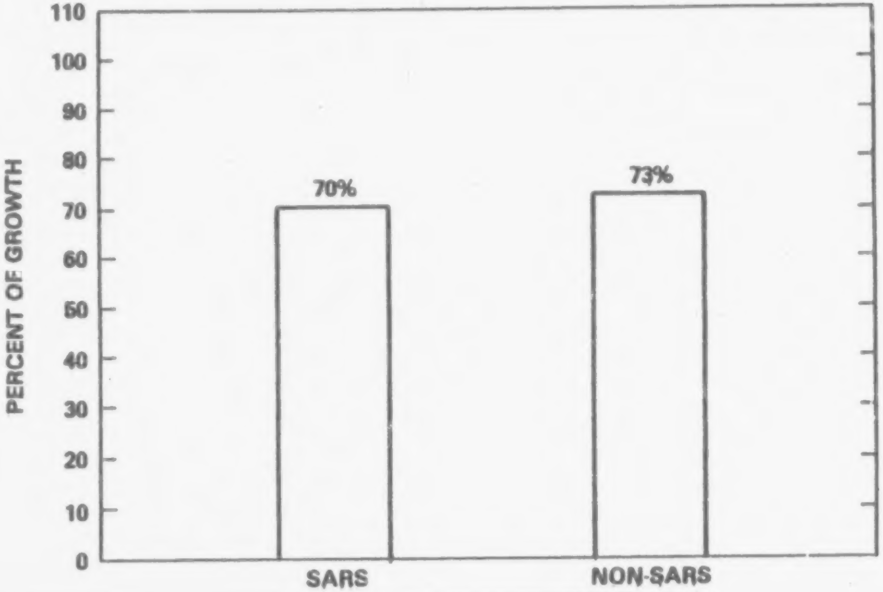


	SARS	NON-SARS
ACQUISITIONS:	73	86
CURRENT ESTIMATE:	$607	$195
INITIAL ESTIMATE:	$319	$ 98
INITIAL GROWTH:	$288	$ 97

(ALL DOLLARS IN BILLIONS)

CHART NUMBER 2

DEVELOPMENT ESTIMATES COMPARISON OF SAR/NON-SAR COST GROWTH RATE AS OF SEPTEMBER 30, 1983

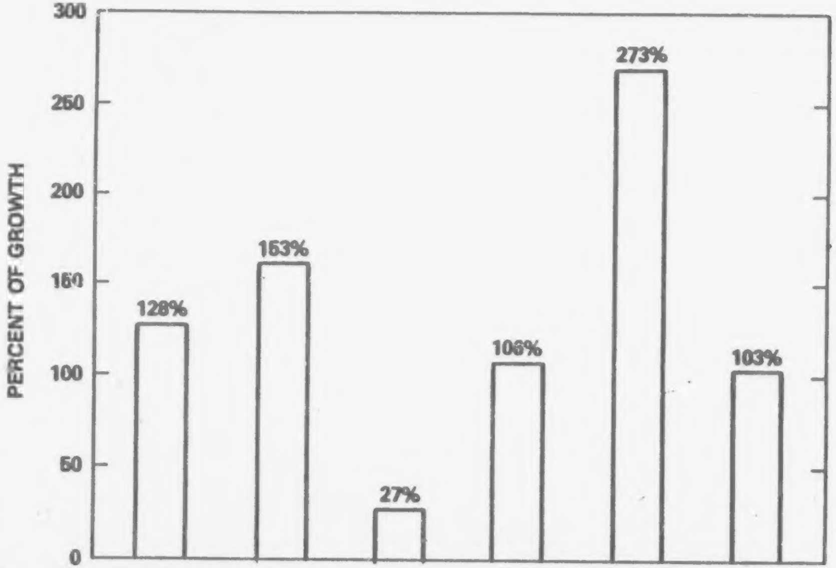


	SARS	NON-SARS
ACQUISITIONS:	73	86
CURRENT ESTIMATE:	$607	$195
DEVELOPMENT ESTIMATE:	$358	$113
DEVELOPMENT GROWTH:	$249	$ 82

(ALL DOLLARS IN BILLIONS)

CHART NUMBER 3

PERCENT OF INITIAL ESTIMATE COST GROWTH BY CATEGORY OF WEAPON SYSTEM AS OF SEPTEMBER 30, 1983

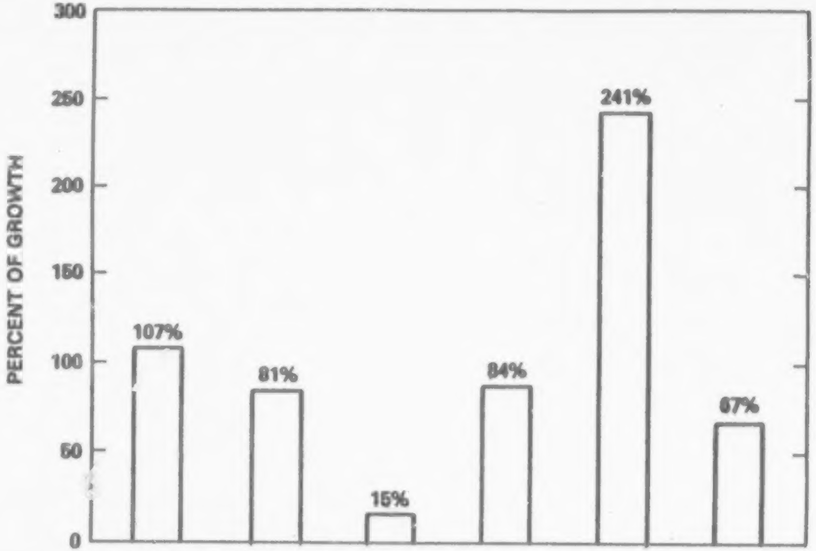


CATEGORY:	AIRCRAFT	HELICOPTERS	MISSILES	SHIPS	VEHICLES	OTHER
ACQUISITIONS:	28	9	41	24	10	47
CURRENT ESTIMATE:	$296	$38	$181	$171	$41	$75
INITIAL ESTIMATE:	$130	$15	$142	$ 83	$11	$37
COST GROWTH:	$166	$23	$ 39	$ 88	$30	$38

(ALL DOLLARS IN BILLIONS)

CHART NUMBER 4

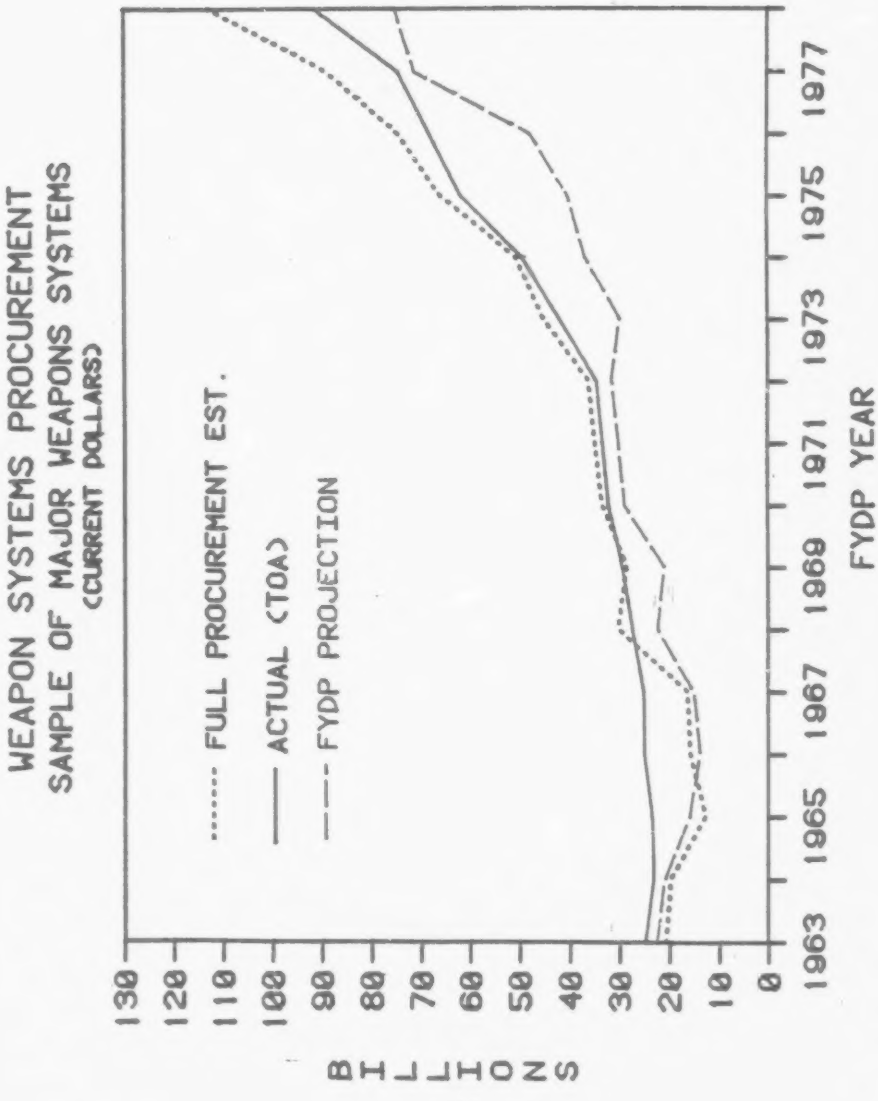
PERCENT OF DEVELOPMENT ESTIMATE COST GROWTH BY CATEGORY OF WEAPON SYSTEM AS OF SEPTEMBER 30, 1983



CATEGORY:	AIRCRAFT	HELICOPTERS	MISSILES	SHIPS	VEHICLES	OTHER
ACQUISITIONS:	29	9	41	24	10	47
CURRENT ESTIMATE:	$296	$38	$181	$171	$41	$75
DEVELOPMENT ESTIMATE:	$143	$21	$157	$ 93	$12	$45
COST GROWTH:	$153	$17	$ 24	$ 78	$29	$30

(ALL DOLLARS IN BILLIONS)

CHART NUMBER 5



Mr. CONAHAN. Thank you, sir.

Well, as the subcommittee knows, and as discussed here today, the military weapons systems acquisition process is characterized by programs which are extended, exceed original cost estimates, and encompass fewer units than originally planned. DOD attributes most cost growth to quantity increases to fill original objectives or new requirements and inflation.

We do not disagree that these two factors are significant contributors, but we would add that overoptimism in cost estimating transcends all of the reasons cited by DOD for cost growth and, therefore, is the principal contributor to underestimates, and I will talk to that a bit later, sir.

Senator GRASSLEY. We are hooked on the narcotic for optimism. I have had an opportunity to say before, it is rampant through Government, but particularly bad within the Defense Department.

Mr. CONAHAN. Yes, sir.

Cost estimates are reported to the Congress through the selected acquisition reports, which we will refer to today as SAR's, unit cost exception reports, and of course, the budget process. SAR's are reports that represent comparison between DOD's current estimate, and the development estimate which reflects the baseline established when the program entered the full-scale engineering development. The unit cost report focuses on unit cost increases, and must be submitted when certain thresholds are breached.

For some time now, major concerns have been expressed by the Congress and its committees over the accuracy, timeliness, and completeness of this reporting. We recently completed a report concerning seven major weapons systems the report having been issued last month. We found that the SAR's do not always reflect the latest anticipated program acquisition costs.

Senator GRASSLEY. Can I point out for the record that we appreciate that as a very good analysis, as well. I think you need to be complimented.

Mr. CONAHAN. Thank you, sir.

Second, they do not always show the total planned acquisition objectives; important cost categories are not always reported; and costs are not always reported consistently and unit cost exception reports have not fully resolved the problem of the lack of current data flowing to the Congress.

It is also difficult to compare the reports with other reports that are coming up to the Hill, such as the budget.

Management and project reports, such as the SAR's, should be designed to ensure that program objectives are achieved and costs controlled. These reports must be timely, useful, and readily understood. Government financial systems should be designed to provide that information. Yet today's financial systems, Mr. Chairman, not only in DOD, but throughout the Government, provide little in the way of reliable cost data essential to effectively monitor program execution, anticipate overruns, and provide a basis for future program and budget planning.

All too frequently, the results are the types of problems discussed here today, cost estimates which are unreliable, inconsistencies between budget requests and accounting reports, and an inability to compare planned budgets with actual costs and results.

Our prepared statement contains a sample project report, which we think is a better alternative to the information which is flowing to the Congress today. We are prepared to discuss this sample project report later, as you wish, during the question and answer session.

Now, I would like to turn to the DOD cost estimating. In our review, that we completed last month, we determined that on the systems we reviewed DOD could have improved its cost estimating and reporting, by (1) improving its cost estimating guidance and the basic data used in estimating, and (2) ensuring stricter implementation of the guidance. We also found that DOD needed to introduce more realism into the assumptions and methodologies used, and that it could and should make fuller use of the independent cost estimates of these programs.

Senator GRASSLEY. How much more is that, how much more realism?

Mr. CONAHAN. I think there is room for substantial improvement in that regard. I think that the examples that are contained in our report reflect that there is a substantial degree of realism yet to be achieved by making some of these improvements.

Senator GRASSLEY. Has there ever been a weapons system where the cost has been under what was projected?

Mr. CONAHAN. I cannot come up with an example of where it was under, but I can cite an example, where we met costs, and we met the schedule, and that was the original F-16 buy. The European participating governments in that consortium insisted that design be stabilized before we went forward, and that there would be no changes during the first buy of some 650 airplanes. In that instance we came in on cost schedule and performance.

Senator GRASSLEY. Just one out of all you dealt with?

Mr. CONAHAN. Well, we might point to the air-launched cruise missile. If you recall, when the B-1 bomber was first canceled, the cruise missile became a fairly high national priority. Its funding and design were pretty well set, and we did not encounter as many production problems as we ordinarily do.

Senator GRASSLEY. Thank you.

Mr. CONAHAN. As I mentioned, estimates are often based on contractor data, that is sometimes overly optimistic. I think you were trying earlier in this hearing, to get the point that the use of optimistic estimates results from the environment within the DOD community. The environment encourages and pushes contractors and those within DOD to sell a program to the services and to the Congress. The way this is acted out is by presenting an optimistic estimate which puts the program in a favorable light. This is our general finding.

Realistic assumptions and sound methodologies are essential ingredients to good estimates. Improvements are needed in the consistency of inflation recognition, and the recognition of program risk—two very important parts of our analyses.

We found that cost estimators were instructed to use optimistic assumptions in estimating to contractor profit, construction schedule, and allowances for uncertainty. DOD has sometimes decreased its cost estimates to fit within the fiscal constraints of the Service budgets, and has excluded relevant program costs from its milestones.

We also found that cost estimators base their estimates on the information available to them at the time, and that they assume that the system will progress as initially scheduled, not anticipating changes in scheduling, funding, engineering, or to the threat.

Although OSD and the Services have established independent cost estimating groups to help ensure that cost estimates are more reliable and valid, efforts by such groups have not always been effective for the most part, because their estimates have not been used in coming up with the final reporting on these systems.

I would like to say just a few words about undercosting the 5-year defense programs. You made reference to that in your opening statement, Mr. Chairman.

Historical data shows that DOD's 5-year defense programs are consistently undercosted. The dramatic increases in the defense program since 1980 and the perception that the cost of these huge increases may continue to be significantly understated has become a serious concern to the Congress, and to this subcommittee, as well as others.

As I have already said, a major contributing factor to undercosting is bias in DOD cost estimating practices which encourage optimistic cost assumptions, while excluding actual cost experience and the reality of the budgeting environment.

Since 1970, this pattern of receiving more money, and purchasing fewer quantities has gotten progressively worse. As long as historical trends continue, Congress is likely to appropriate in the next 5 years somewhere between $253 billion and $319 billion more than DOD now projects that it will require in its 5-year defense plan.

Senator GRASSLEY. I think what you said is are spending more than ever before, and getting less for it, in the way of quantity?

Mr. CONAHAN. Yes, sir; we consistently do not get for the money estimated, the quantities we estimate we can buy. We consistently fall short.

Senator GRASSLEY. Is this worse now than ever before? I do not know how far back in the history you can make a generalization, but that is what I am trying to get at.

Mr. CONAHAN. I think that as weapons systems become more complex and more sophisticated, and as the unknowns out there become greater, this situation has continued and will continue. However, there are other reasons for it as well. We do not lock in on design as much as we should up front. We do not do the kinds of testing and evaluation that we need to do. I do not think there is any one reason, but I think the problem is perhaps prevalent today than it has been in the past.

Senator GRASSLEY. OK.

Mr. CONAHAN. In analyzing the planned weapon systems cost versus actual total obligational authority provided for 97 major weapon systems during the course of 5-year defense programs for the last 20 years, we found that the Congress must grant an average of 31 percent more obligational authority in an effort to execute the plans. And as I said earlier, even with the additional funding, the number of weapon systems which DOD is actually able to procure is less than anticipated.

Let me conclude, Mr. Chairman, by discussing motivations within DOD for presenting optimistic estimates.

A former Under Secretary of the Army probably best said it recently when he said, "contractors know their proposals * * * are to be made to a set of people who have every incentive to believe an overoptimistic, barely credible technical, schedule, and cost commitment, and who have a reputation for rejecting conservative offerings." That says it pretty well.

We reviewed a recent Air Force study that indicated that cost estimators are provided organizational motivation to develop an estimate that can be used to advocate the new weapon system to DOD and the Congress as well. And then, of course, a recent Congressional Research Service report essentially made the same point, and in our work we found no evidence to contradict these findings.

When estimators are encouraged to use optimistic assumptions regarding system design requirements, number of units, length of time for procurement, and so on, it results in an overly optimistic estimate of what the system could cost if the acquisition strategy goes perfectly. I think that is important to emphasize.

However, history shows that system acquisitions rarely go according to plan, a myriad of influences determine their ultimate cost and performance. And these influences have resulted in systems exceeding original and revised cost estimates.

Mr. Chairman, we would be pleased to take any questions that you might have.

Senator GRASSLEY. Yes. And the first one that I want to ask is relating to something you discussed very clearly, but I'd like you to reemphasize it. Does SAR give the Congress the complete information it needs to make sound management decisions?

My observation, is that so often, at least with in the last 3 years that I have been acquainted with it, DOD keeps saying things are getting better, but we cannot determine their progress through the information we are getting in the SAR.

Mr. CONAHAN. I quite agree with your observation, Mr. Chairman.

As a matter of fact, we have been asking the Department of Defense to make improvements in their SAR's, for quite some time. Since 1975 we have issued four separate reports, listing recommendations that we thought would improve the information flow to the Congress. The kind of information that is needed is not contained in the SAR.

Senator GRASSLEY. I think we need your judgment of what some of that information ought to be. What kind of information we ought to have. You said it does not contain the information.

Mr. CONAHAN. I think what we need to do is to provide up-to-date estimates in the SAR's. Frequently, estimates that are known within the Department of Defense are not included in them.

Senator GRASSLEY. Now, that would refer to what we call actuals?

Mr. CONAHAN. Right, there really is not an actual to be had—in the scheme of things—over at the Department of Defense.

Senator GRASSLEY. OK.

Mr. CONAHAN. Since we do not have accounting systems which reflect actual costs, we have to rely on estimates, and those numbers in the SAR's are in fact estimates. But what we need to do is conduct a basic overhaul of the accounting systems within the Department of Defense, and other departments of Government.

But, that is a very long-term effort, and something that our office would like to discuss further with the Congress.

Now, short of that, and until we can accomplish those sorts of major reforms, I think that the Department of Defense can reformat its SAR's, so as to make it a little clearer as to what is in there, and to make it more readable, and more understandable. That represents the sample format that we have proposed in our prepared statement.

Now, beyond that, DOD needs to begin sharing with the Congress information that it is not now sharing. For example, in the report we point out that the Bradley fighting vehicle weapons system is shown in the SAR's without the intended two missiles that it is going to carry. And we feel that it is as much a part of the total weapons system as is the basic platform.

They subsequently did put it in, but it was not in there for quite some time. We have an example in the report that shows that—and this is a little bit different from the two missiles—DOD established quantities of a particular missile at about 50,000, or a couple of thousand shy of that.

There is a pretty fair agreement within the Department of Defense that an additional 6,000 of those missiles will be bought each year, until they get up to around 70,000.

Now, I am not suggesting that you put a firm cost estimate on that program, at that 70,000 number, but I am suggesting that the SAR should at least reflect that they plan to buy beyond what they are now showing.

Senator Grassley. I am sorry for interrupting your train of thought, but how can the Congress get this information from the DOD that you feel we need?

Mr. Conahan. I think, of course, expressions of interest in having that kind of information, like I am hearing this morning at the subcommittee, is necessary. I think that we have got to get greater expression on the part of the Congress that that kind of information is needed, and beyond that, there are some mandates that can be made.

For example, last year the 1984 Defense Appropriations Act required the Secretary of Defense to reestimate and certify the costs of the B-1 bomber. We might want to consider some mandate that the Secretary of Defense certify to the cost of all of the systems that are included in the SAR's.

Senator Grassley. OK.

Mr. Conahan. I think there are improvements that the executive agencies can make themselves—the Department of Defense, and Services—and then there might be some room for consideration of some of the other suggestions for improvements that I have made.

Mr. Day. There is another point that needs to be made, Mr. Chairman.

I think there is a communications problem between the Congress and the Department of Defense, because I hear, with some frequency, that the Department of Defense is convinced it is giving the

Congress what it wants. Yet I hear from the Congress, reading testimony, and hearing that the Congress is not getting what it wants. So there needs to be some meeting of the minds between the Congress and the Department of Defense on that score.

Senator **Grassley**. I guess my feeling as both a member of the Budget Committee where I have been involved in some of this, and also now as a member of this subcommittee is that, we should just put everything out on the table.

I would think that there wouldn't be too much concern about giving too much, and when you get everything out on the table, I think it speaks for itself. Let the sun shine in.

Did you finish, before I go on?

Mr. **Day**. Yes.

Senator **Grassley**. Mr. Chauhan told us that B-1 will experience cost growth in excess of 20 and a half—no, I am sorry—yes, $20½ billion, certified to us by the Secretary of Defense.

My amendment requires the General Accounting Office to check that recertification is now law, and you have already referred to that.

Do you have access to the information you need to perform that check?

Mr. **Conahan**. Not as of this moment, Mr. Chairman.

The Secretary of Defense certified the cost to the Comptroller General earlier this year. We approached the Air Force seeking the kind of information that we needed in order to do that review.

We were asked to await completion of negotiations with the four associated contractors. They indicated that that would take several months.

We had difficulties a year and a half ago getting information concerning the B-1. After a protracted series of negotiations between us and the Department of Defense, we were able to reach accommodation, and the information was forthcoming.

We felt, therefore, that the information this year would be forthcoming. However, when we learned that the engine contract had indeed been negotiated, we went to the Air Force and asked for the data on the grounds that they said we could have it after the negotiations were completed. They told us, "Well, we really did not mean that. We meant after the contract was signed, and the contract has not yet been signed".

At about the same time we were at two of the associated contractors, looking for purchase data, vendor quotes, and this sort of thing. The program manager instructed those two contractors, last month, to deny that information to GAO.

So after looking at the situation, on June 22, I sent a letter to Air Force Secretary Orr, requesting that he provide that information by this coming Friday, otherwise we intend to pursue legal enforcement of our access rights.

Senator **Grassley**. I guess I want to ask you, are you going to be able to get access to the bills of labor and the bills of material?

Mr. **Conahan**. We are seeking access to that information, yes, sir. Are we going to get it? I do not know.

Senator **Grassley**. Well, would you let me know if you have problems, and let me say, why I would like to know. About 12 months ago, when we passed that amendment, it was redrafted, in cooperation with Vern Orr, and OK with people within GAO, in order to protect certain proprietary interests. I had a telephone conversation with Vern Orr, that Saturday afternoon, and I had telephone conversations with people within GAO. This thing was all worked out so we would have no problems getting this information.

You know, it was the type of agreement you normally don't put into law, but the personal assurances that you get, lead you to expect people will keep their word. If you do have trouble, I suppose what I would want to do is to go back and remind those people of the assurances they gave me, beyond the few sentences of the law, because we are talking about the good faith of the people involved in the process.

Mr. CONAHAN. Well, we thought that we should have been given the access, but unfortunately, it came to the point where I had to write a strongly worded demand letter to them.

Senator GRASSLEY. OK. So you have had problems, and the letter is a further step to get over those problems you have already had, so you are having problems.

Mr. CONAHAN. Yes, sir, we are having problems.

Senator GRASSLEY. OK. Well, I do not know to what extent Secretary Weinberger is involved as opposed to Secretary Orr, but just let me say that now sometimes communications go through press instead of directly to Secretary Orr.

I used to have a very personal letter writing arrangement with Vern Orr, that evidently was violated by some lieutnenant general here, about 10 days ago, but regardless of that, as these messages come, the most recent message I got was that, we can have whatever information we want. They are glad to give it to us.

So I am passing this along to you, that the attitude from the highest point in the Department is that, what information we want we ought to have. So, that ought to be very clear, from the highest point in DOD, that you should not have any problem getting the information that you want.

Mr. CONAHAN. I think the key, sir, will be Friday of this week. If they do not respond by Friday of this week, we are going to have to go forward with our legal processes.

Senator GRASSLEY. Well, I appreciate the determination that you exhibit by that statement, and I want to compliment you for it.

Mr. CONAHAN. Thank you.

Senator GRASSLEY. I would also say, I would be disappointed if you did not do it, because it was exactly my being satisfied with people in GAO, that they had adequate authority to get the information, if it were not forthcoming, under existing law, that it was not necessary for us to add anything specific in our bill about GAO having access to certain information.

I appreciate that confirmation of the statement that was made to me by your higher ups in GAO in those telephone conversations of July last.

I need to have your comment on a paragraph which is a quotation contained in Mr. Chauhan's statement. He says, "In another paragraph of this report"—if you want to look at it, it is on page 12 of his statement.

"In another paragraph of this report, General Thurman is stated to have said, "the GAO has been wanting to see the weekly program reports from the AFPRO's. As of now, they are not getting them and the System Program Office (SPO) wants to keep it that way. If a serious problem should arise on the program in the future, we should not put it in our weekly reports but pick up the phone and call the SPO instead. This will get more immediate attention where needed."

And then still pertaining to Mr. Chauhan's statement—

> General Thurman also asked us to provide our respective contractors a copy of our reports. He said to tell them that it is just an information copy.

Now, were you aware of that?

Mr. **Conahan**. Yes, sir. That communication, the latter communication, was made on May 25 of this year, when the Deputy Program Officer advised us, and I will quote, he said:

> I have advised both the AFPRO's and the contractors not to release this information until after the proposed multiyear contracts have been negotiated and are ready for Congressional approval. We must continue to deny access to these records, since they are negotiation-sensitive.

It was after that final straw that we communicated with the Secretary of the Air Force.

Senator **Grassley**. Mr. Chauhan made the statement that we go into a buying spree, without knowing what we want to buy.

What is GAO doing, or what can it do, in the future, to help stop that practice?

Mr. **Conahan**. I do not know that the General Accounting Office can do much more than report on the situation, both here and over at the Department of Defense.

I think that what we need to do is to get some discipline into the system that does not exist right now. I think it goes to one of the objectives that you announced for this hearing this morning.

I think that we need to consider the incentive structure, perhaps at four levels. We need to recognize that we are a growth-oriented Government, and that 1 year's budget seems to build for the most part on last year's budget. There is a common thread of understanding that this is expected and a consensus exists on this between both the executive and the legislative. Not only is this behavior expected but considered highly acceptable.

At the next level, which I believe is the service level, we are primarily talking about weapons systems. This level is highly concerned with rivalry, and competition. If a service can field a new weapons system, it looks good, and it feels good. The service has won in its competition and rivalry with the other services. That is what occurs across the river.

I believe at the third level is at the project office level. At this level there exists a clear reward for fielding new systems. The whole system of rewards goes to those who field these systems. At this level we see the competition within the service, and this creates a situation where overoptimism abounds, because each project manager strives to get his system in the POM, and in the 5 year defense plan, and competing demands exists.

This is where I think we begin to see a real need for discipline. Someone has to begin making decisions that reduce the number of weapon systems in the requests that are sent forward. We know that the weapon systems are going to cost a lot more money than we are talking about at this moment, and the discipline to recognize this fact and adjust our expectations accordingly, just simply does not seem to exist.

I think that both the contractors and DOD are party to the situation that we have right now. It is fed by the low-cost estimates; and it is fed by people up and down the line who are not making the kind of decisions that they need to make in order to reduce the number of weapons systems that are going into the planning program and budgeting system.

There is also a fourth level, that we need to discuss. I think Mr. Chauhan referred to this level earlier this morning. This level is on the whole support area, in the contract administration area. The folks that populate this area, and who support this system, also work for the same boss, so to speak. They are part of the Air Force system, they are part of the Army system, they are part of the Navy system, and they too want to support what the system wants, and the system wants more of these weapons systems.

Senator **Grassley**. It seems to me that all four levels simply add up to more cost.

Mr. **Conahan**. I think they do, sir.

Senator **Grassley**. What you described is the incentive system and what is wrong with the incentive system.

Mr. **Conahan**. I think so, sir. And I think that we can get at that, too.

The one thing that I mentioned earlier, is the need for revamping the overall financial management system, and the structure of the Federal Government, because it now does not give us the kind of information needed in order to get the visibility to take care of this, at any of these levels.

Senator **Grassley**. Well, if you just had to list just one step, one little first step we could do, what could we do right now?

Mr. **Conahan**. I suppose the place to start is at the project manager level. I think that we should design a system which would require the services, first of all, to prepare adequate and realistic estimates of what these systems are going to cost, taking into account the future risks, and the fact that they are going to have changes. You cannot avoid some changes, other changes you can avoid. I think what you have got to do is to lock in on an estimate, get the services to certify to that estimate—and that does not need to be one number, by the way, it can be a range of numbers, from a low of here, to a high of here. Then possibly depending upon what happens to that change, some sort of a ceiling or threshold should be established which would automatically trigger a full review and reconsideration as to whether that weapons system should go forward.

Senator **Grassley**. Since DOD does not value should-cost methods, in fact withholding information makes it very difficult to come up with even such an analysis, would it not be better to have the GAO do an analysis of should-cost, as it relates to negotiating contracts, and then to submit it to the Congress?

Mr. **Conahan**. I think we could do an analysis of how DOD approaches should-cost.

If you are suggesting that GAO do a should-cost analysis of a given weapons system, or a given proposed buy, I do not think that, one, we have the wherewithal to do that, except on a very sporadic and sampling basis, and two, I think that would take away from us the independent benefit that the Congress enjoys from having an organization to review what the Executive does.

I see that, sir, as an Executive function, with GAO possibly reviewing what they have done.

Senator **Grassley**. What about on a sample basis?

Mr. **Conahan**. Well, we could sample what they do. Well, Mr. Chairman, perhaps I could mention something in that regard. It is closely related, and it is more related to Mr. Chauhan's testimony, than some of the things we are talking about right now.

He said, earlier today, that if the Boeing system supports a $750 cost for the diode board, that something is wrong with the Boeing accounting system. And I think I can agree in a very general sense with that.

We have seen that a number of the cost allocation systems in being by these contractors result in those kinds of prices being charged to the Government. The thing that we have not seen for a fair period of time around here is sufficient review to see whether the overall cost of those contracts is appropriate.

So we are just now undertaking a fairly extensive review of selected contractors' cost accounting and cost allocation systems, which will get to some part of the question that you just raised.

Senator **Grassley**. OK. I am done with my questioning.

I want to say thank you for participating in this, but most importantly, thank you as a person interested in getting information out on the table, and my interest in the cost of the B-1, and how you have assured me today that you are following through on the commitment that your Agency made last July, to use all necessary resources to get the information that you need to make the final analysis.

I think that that is very reassuring, and I want to thank you, but I also thank you for your insights into this overall problem, and I would like to say that there are obvious structural and incentive problems, which transcend those of the system.

There is nothing that we could do to this system to improve things, as long as the incentives of Government are to undermine any improvement.

I believe the Congress must begin to think about legislation that is designed to change structures and incentives of Government, so that we can make real progress toward solving the problems that have surfaced in testimony given before this subcommittee, and I might say other subcommittees that have tried to get at like information.

I intend to pursue aggressively and extensive education process of the public, the Congress and the business community. To do this, I will need the assistance of the expertise of people like Ernest Fitzgerald and Ompal Chauhan, as well as the General Accounting Office.

But more important, I intend to pursue measures, legislative or otherwise, to deal with the contradictory practices of what our system says versus what it does.

Thank you very much, and the meeting is adjourned.

[Whereupon, at 12:30 p.m., the subcommittee adjourned, subject to the call of the Chair.].

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